

TOWN OF Herndon VIRGINIA



Annual Comprehensive Financial Report Fiscal Year Ended June 30, 2021

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TOWN OF HERNDON, VIRGINIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2021

Prepared by the
Department of Finance

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**TOWN OF HERNDON, VIRGINIA
FINANCIAL REPORT**

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INTRODUCTORY SECTION

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William H. Ashton II
TOWN MANAGER
T (703) 787-7368
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TOWN COUNCIL
Sheila A. Olem, Mayor
Cesar del Aguila
Naila Alam
Pradip Dhakal
Signe Friedrichs
Sean M. Regan
Jasbinder Singh

November 19, 2021

The Honorable Mayor, Members of the Town Council and Citizens of the Town of Herndon, Virginia

We are pleased to present to you the Annual Comprehensive Financial Report of the Town of Herndon, Virginia (town), for the fiscal year ended June 30, 2021. The Herndon Town Charter, Section 4.2 (f), requires that the Town Manager arrange for an annual audit by a certified public accountant. In addition, Section 15.2-2511 of the Code of Virginia requires that all counties, cities and towns with populations greater than 3,500 have their accounts and records audited annually as of June 30 by an independent certified public accountant in accordance with the specifications furnished by the Auditor of Public Accounts of the Commonwealth of Virginia. This report is formally submitted to you in fulfillment of those requirements.

The financial statements included in this report, which have earned an unmodified audit opinion, conform to the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association of the United States and Canada (GFOA), and the Auditor of Public Accounts.

Town management is responsible for the accuracy, fairness, and completeness of the information, including all disclosures that are presented in this report. To the best of our knowledge, the enclosed data are believed to be accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the town. All necessary disclosures have been included to enable the reader to gain a thorough understanding of the town's financial affairs. For additional information regarding the basic financial statements and the town's financial position, please refer to Management's Discussion and Analysis (MD&A) which appears in the financial section of the report.

Town management is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the town are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The town's financial statements have been audited by Brown Edwards & Company, LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the town for the fiscal year ended June 30, 2021 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by town management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the report's financial section.

Profile of the Town

The Town of Herndon, Virginia, incorporated in 1879 is located in the northwest quadrant of Fairfax County about 23 miles west of Washington DC and two miles east of the Washington Dulles International Airport. The town has a land area of 4.25 square miles. The local economy originally centered around the railroad made it popular for distributing milk to nearby Washington D.C. Since that time, the town's economic and demographic makeup has changed dramatically. The census.gov annual population estimate for the town as of 2019 is 24,601 persons. If the town is developed according to the currently adopted comprehensive master plan, it is anticipated that the 2030 population will increase to approximately 28,200.

The town is organized under the council / manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the town. The Mayor and six members of the Council are elected simultaneously for two-year terms. The Council appoints a Town Manager to be the chief administrative officer of the town. The Town Manager is charged with directing all business affairs of the town.

The town provides general governmental services for its citizens that are typical of towns in Virginia. These include public works and utilities, parks and recreation, police community development, and other administrative services. In Virginia, incorporated towns are an integral part of the county in which they are located. The citizens of the town, therefore, pay Fairfax County property taxes (real estate and personal property), in addition to town taxes. In exchange, Fairfax County provides public education, certain technical and special education, libraries, health and human services, mental health assistance, fire and ambulance services, judicial services, correctional facilities and additional recreation activities and facilities.

The Town Manager is required by the Code of Virginia to prepare and present to the Town Council a proposed budget no later than April 1 of each year. The Town Council is required to adopt a budget prior to July 1 and shall fix a tax rate for the budget year at that time. The annual budget serves as the foundation for the town's financial planning and control. The town initiates its budget process for the upcoming fiscal year in October and the Town Council determines goals, objectives, and priorities between November and December. Departments submit their budget requests which are then reviewed by the Town Manager between January and February. A brief synopsis of the budget as proposed by the Town Manager is published at least once in a newspaper with general circulation within the town. The public hearing provides citizens of the town an opportunity to comment on the recommended budget. Activities of the General Fund, Capital Projects Fund, and Special Revenue Fund are included in the annual appropriations resolution and adopted budget.

The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by individual fund. Management control is maintained at the department level with all departments having on-line access to expenditure account information. Encumbered amounts lapse at year end, except for capital projects, grants, and certain restricted funds; however, after review, they generally are re-appropriated as part of the following year's budget.

Local Economic Conditions and Outlook

Located in Fairfax County the center of the Dulles Technology Corridor, Herndon enjoys a significant corporate presence that includes Amazon Web Services; Beacon Roofing Supply; Boeing; Booz Allen Hamilton; Fannie Mae; Karsun Solutions; Northwest Federal Credit Union; Peraton and Serco. According to the American Community Survey, the town's median household income in 2019 was \$111,371. According to the Bureau of Labor Statistics, in September 2021, the local unemployment rate in Washington metropolitan area, was 4.1 percent; Commonwealth of Virginia, was 3.8 percent; and the national rate was 4.8 percent.

Herndon's economy just as in communities across the nation and around the world, was significantly impacted by the COVID-19 pandemic. During the latter part of 2020 and early part of 2021, the town's economy has begun to rebound from the downturn in early 2020. The overall economic outlook assumes a continued modest increase in residential property values and flattening in commercial property values in the near-term; the town anticipates a small uptick in the hotel occupancy tax which declined significantly due to the COVID-19 pandemic. The meals tax in the near-term should have a modest increase with a return to work by the office workers, with the remaining local tax sources remaining flat.

The town continues to attract interest in infill residential development and the redevelopment of older commercial properties. The second phase of the Silver Line, which will include a stop in Herndon, has spurred strong redevelopment interest in Herndon's Metro area. Two highly impactful redevelopment proposals were approved in the past year, Fairbrook Business Park and Park Place. The Fairbrook Business Park project will redevelop an existing office building into a 1.5 million sf mixed-use development comprised of residential, office and retail uses. Park Place is the redevelopment of Herndon Corporate Office Center into a residential community of 141 residential units.

Long-term Financial Planning

The Town Council adopted Vision for Herndon focuses on five major tenets: Honoring People, Celebrating Community Spirit, Enriching Lives through Arts and Entertainment, Championing Business and Technology, and Cultivating a sustainable Environment. The 2035 Vision's five tenets form the cornerstone upon which all town initiatives are built. In addition, the Council adopted specific goals and a strategic plan which advances the Vision Plan.

The town's 2030 Comprehensive Plan addresses the redevelopment of the areas surrounding access to the Herndon Metro station at the southern edge of the town. This transit station is part of Phase 2 of Dulles Rail, a project that will bring the Washington area Metrorail system (dubbed the "Silver Line") to the Herndon area. It is expected to be completed in 2022. The connection by rail of the town and its commercial districts to the entire metropolitan Washington region creates a vastly enhanced marketplace that will likely have broad appeal to businesses. The town continues to focus on planning for development and redevelopment at the future Herndon Metrorail area. The concepts provide for large scale transit-oriented mixed use in the vicinity of the future Station. Also envisioned is redevelopment of existing low-rise office and back-office areas resulting in approximately 6.9 million square feet of high-quality office, residential, hotel and retail space.

Long-term Financial Planning (Continued)

The town's close proximity to Washington Dulles International Airport provides a major stimulus for commercial development. The airport itself has completed a multi-billion-dollar capital construction program resulting in a redesigned facility capable of accommodating significant increases in passenger traffic and airport operations. In fact, the entire Dulles Corridor, in which the town is centrally located, has entered an era of new growth. Over the next 20 years, population in the Dulles Corridor is expected to increase by 45 percent and job growth by 63 percent. This growth potential, along with steady increases in the number of new information system technology and security-related businesses, will have a positive influence on the town and its economic vitality.

The town continued its long-term plan of developing the downtown and cultivating a sustainable environment by issuing \$11.135 million in general obligation public improvement bonds in September 2018. The bond proceeds are funding various capital and transportation projects related to the downtown and areas around the metro and were used to purchase additional capacity for the water system in anticipation of future growth. Additionally, during fiscal year 2019, the town refined its revenue and expenditure forecasting methodologies and updated the rolling usage fee rate model for water and sewer. As of the date of this letter, the town is undertaking a fee and cost recovery study for several major departments. These refinements are designed to help the town to better anticipate and plan for future needs, especially as new housing developments come online and major transportation projects transition into the construction phase.

Relevant Financial Policies

Financial policies are a key component of the town's annual budgetary planning process, which highlights the organization's commitment to fiscal integrity and sound financial management. These policies relate primarily to capital planning and debt management and provide annual budget guidelines covering operating revenues and expenditures. Included in the policies are strategies which support the adoption of an annual balanced budget; require recurring costs to be supported by recurring revenues; and limit combined outstanding and proposed debt such that the total is no greater than the town's maximum debt capacities. The policies also address minimum General Fund unassigned fund balance requirements and revenue stabilization fund balance guidance. The town's financial policies were updated based on advice from town's financial advisors and were adopted by the Town Council as part of the town's fiscal year 2020 budget. See Management's Discussion and Analysis in the Financial Section of this report for the financial highlights for fiscal year 2020.

Major Initiatives

The town has four major development focus areas that will significantly impact its economy in the coming years: the Herndon Metrorail station area, redevelopment of downtown Herndon, the South Elden Area Plan and creating the Transit Related Growth area plan.

The Herndon Metrorail station is slated to open in 2022 as part of Phase 2 of the Washington Metro Silver Line project. The town continues to focus on the implementation of the Herndon Transit-Oriented Core (HTOC) plan adopted by the Town Council in 2012, that focuses on redevelopment of 38 acres near the future station. The plan calls for the transformation of the existing low-rise office space into transit-oriented development to include office, residential, hotel and retail space.

Major Initiatives (continued)

In 2020, the Herndon Town Council approved the Quadrangle Development Corporation proposal for the redevelopment of Fairbrook Business Park, adjacent to the HTOC, into 1.5 million sf of development comprised of 900 residential units, 600,000 sf of office and 20,000 sf of retail.

The Herndon Downtown Redevelopment Project, a partnership between the town and Comstock Herndon Venture LC, continued to move forward with the transfer of the town-owned land to Comstock in December 2020. This project includes the construction of 273 apartments, 17,000 sf of retail space, an 16,265 sf Arts Center, and a 726-space parking garage. Additional downtown developments include the completion of the Aslin Brewery's new tasting room; and the proposed Herndon Biergarten's redevelopment of a former ironworks site into a restaurant/beer garden.

In the South Elden Area Plan neighborhood, Stanley Martin homes has received approval for the redevelopment of Herndon Corporate Office Center into a residential community, with a mix of 85 townhomes and 56 two-over-two residential units.

In the upcoming year the town will begin developing a small-area plan for the area adjacent to the HTOC to be named the Transit Related Growth area. This area is a strategic location for redevelopment as the area is within walking distance to the future Metro station and is currently comprised of aging low density commercial structures.

In 2020 the town adopting new Historic District Overlay Guidelines to continue improvements to the town's historic preservation program.

The town also has a new focus on affordable housing, with a proposed repurposing of the Residence Inn into 164 residential units.

Awards and Acknowledgements

Golf Course - By continuing its tradition of providing high quality playing conditions, value and service, Herndon Centennial remains one of the premier public golf courses in the Northern Virginia metropolitan area. During the fiscal year, the course maintained its designation as a "Certified Audubon Cooperative Sanctuary", one of less than 900 in the world so designated.

Tree City USA - The Community Forestry Division of the Department of Community Development received a Tree City USA award from the National Arbor Day Foundation. This is the 32nd consecutive year that the town has achieved this award, confirming the town's commitment to its tree canopy and environmental stewardship.

Public Safety - The Herndon Police Department participates in the annual "Virginia Law Enforcement Challenge" sponsored by the Virginia Association of Chiefs of Police to highlight enforcement efforts to promote traffic safety by reducing accidents and targeting impaired driving, speeding, distracted driving and other roadway safety issues. The Herndon Police Department has won the first-place award in the competition for the previous four years. Due to the Covid-19 Pandemic this challenge was cancelled, and the Town of Herndon Police Department was unable to participate.

AAA Credit Rating – The town maintained its "triple, triple" credit rating, the highest credit rating possible for a local government, from all three credit agencies: Moody's Investors Service, Inc. (Aaa), Standard and Poor's Corporation (AAA), and Fitch Investor Service (AAA). The town's 2018B series general obligation bond issuance during this fiscal year was also rated Aaa/AAA.

Awards and Acknowledgements (Continued)

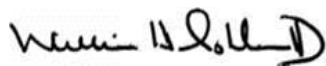
Distinguished Budget Presentation Award - The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the town with the prestigious Distinguished Budget Presentation Award for the fiscal year beginning July 1, 2020. This is the 30th consecutive year that the town has achieved this honor. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device. The town's budget documents for the fiscal year beginning July 1, 2021 were submitted to GFOA for consideration for another Distinguished Budget Presentation Award.

Certificate of Achievement for Excellence in Financial Reporting – The GFOA has also awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Herndon, Virginia, for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020. This was the 46th consecutive year that the town has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The current report is designed and prepared to conform to the Certificate of Achievement Program requirements, and it will be submitted to the GFOA to determine its eligibility for another certificate.

The Town of Herndon continues to maintain a stable financial position through responsible progressive management of financial operations combined with sound accounting and financial reporting practices. The timely preparation of this report could not have been accomplished without the effort of the entire staff of the Department of Finance and the town's independent auditors. We wish to express our appreciation to all who assisted in its preparation and to commend them for the professionalism they displayed throughout the year.

We would also like to express our appreciation to the Mayor and the members of the Town Council for their interest and continued support in planning and conducting the financial operations of the town in responsible and progressive manner.

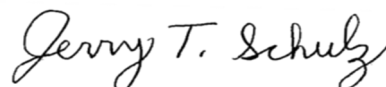
Respectfully submitted,



William H. Ashton II
Town Manager



Robert Tang
Director of Finance



Jerry T. Schulz, CPA
Deputy, Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Herndon
Virginia**

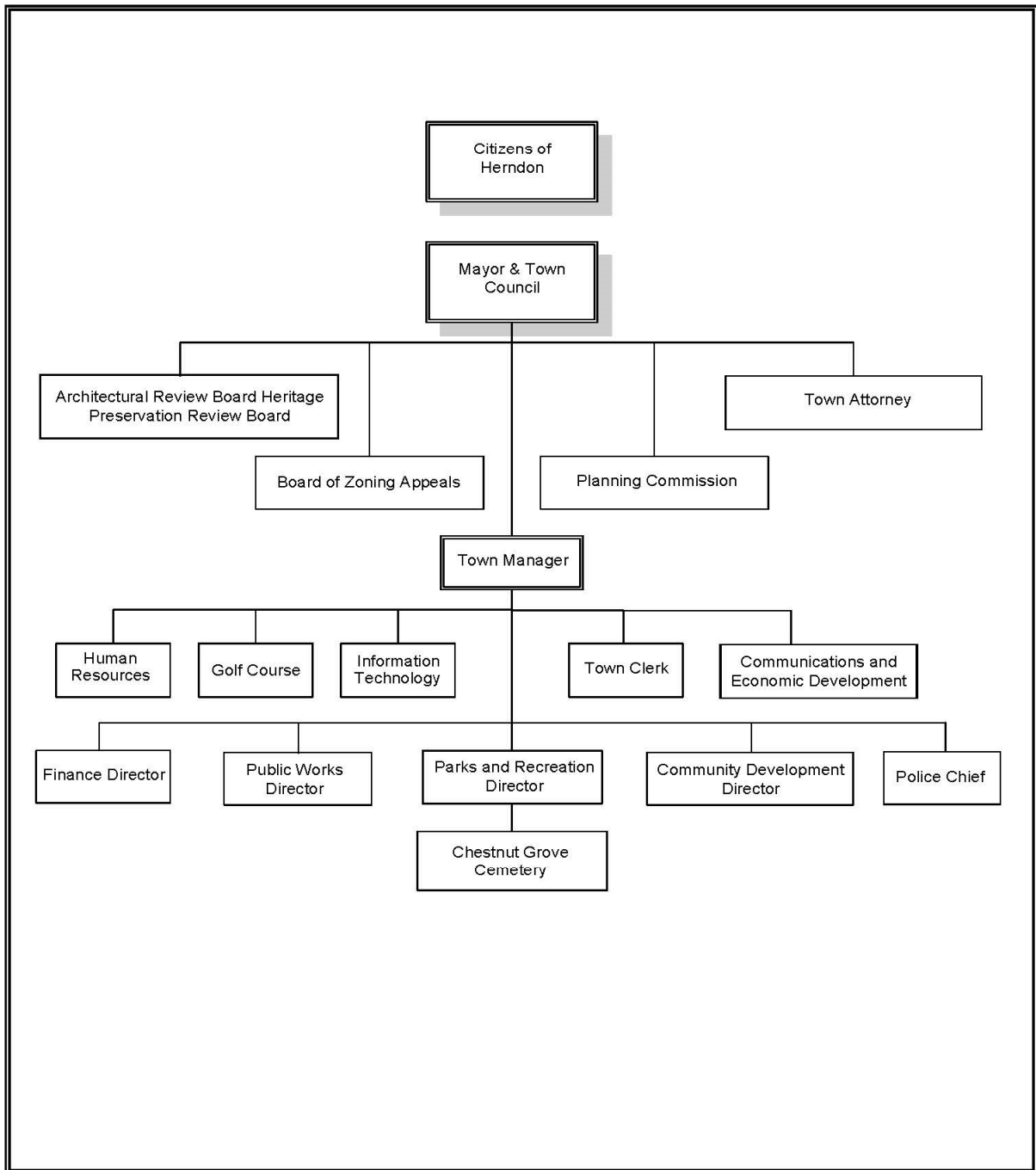
For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO

TOWN OF HERNDON, VIRGINIA ORGANIZATION CHART





Comprehensive Annual Financial Report
Year Ended June 30, 2021

Directory of Officials

Sheila A. Olem
Mayor

TOWN COUNCIL

Cesar del Aguila – Vice Mayor
Naila Alam
Pradip Dhakal
Signe Friedrichs
Sean M. Regan
Jasbinder Singh

MANAGEMENT TEAM

William H. Ashton II
Town Manager

Lesa J. Yeatts
Town Attorney

Anne P. Curtis
Maggie A. DeBoard
Gene A. Fleming
Elizabeth M. Gilleran
Page Kalapasev
Tanya J. Kendrick
Cynthia S. Roeder
Scott Robinson
Robert Tang
Viki L. Wellershaus

Chief Communications Officer
Chief of Police
Director of Golf Course Operations
Director of Community Development
Director of Information Technology
Director of Human Resources
Director of Parks and Recreation
Director of Public Works
Director of Finance
Town Clerk

Independent Auditor
Brown, Edwards & Company, L.L.P.

Prepared by the Department of Finance

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of Town Council
Town of Herndon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Herndon, Virginia (the "town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the town, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the town's basic financial statements. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Matters (Continued)

Report on Summarized Comparative Information

We have previously audited the financial statements of the Town as of June 30, 2020, and we expressed an unmodified opinion on those statements in our report dated November 20, 2020. The 2020 financial information, included in Exhibits A-11 and A-12, is provided for comparative purposes only.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2021, on our consideration of the town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the town's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 19, 2021

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TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Herndon, Virginia's (town) financial statements provides an overview of the town's financial performance for the fiscal year ended June 30, 2021. Please read it in conjunction with the transmittal letter located in the introductory section of this report and the town's basic financial statements which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2021

- The town's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources at the close of the current fiscal year by \$127.9 million (*total net position*). Of this amount, \$34.8 million in unrestricted net position may be used to meet the town's ongoing obligations to citizens and creditors. See Table 1 for more information.
- The town's governmental activities net position increased by \$8.7 million in fiscal year 2021 versus \$3.5 million in fiscal year 2020. The \$5.2 million difference was driven by transferring the Downtown Parking Fund from business-type activities to governmental activities. Not considering the transfer, net position increased \$3.5 million mainly due to lower expenditure spending in departments due to COVID-19 Pandemic. See Table 2 for more information.
- For the town's business-type activities, net position decreased by \$4.9 million in fiscal year 2021 versus an increase of \$0.7 million in fiscal year 2020. The decrease was primarily due to the transfer of the Downtown Parking Fund to government activities. Not considering the transfer of \$5.2 million, business-type activities remained consistent from fiscal year 2020 to fiscal year 2021. See Tables 1 and 2 for more information.
- As of the close of the current fiscal year, the town's governmental funds reported combined ending fund balances of \$38.0 million, an increase of \$7.6 million from the previous fiscal year. This change was comprised of an increase in the General Fund balance of \$8.2 million and an increase of \$0.1 million to non-major governmental fund balance which was offset by \$0.7 million decrease in the Capital Projects Fund balances. The General Fund balance increase was driven by issuance of bond proceeds from our 2020A debt refunding for \$5.1 million. The Capital Projects Fund balance decreased by \$0.7 million, due primarily to land acquisition costs associated with the multimodal access to the Herndon Metrorail project. Non-major governmental fund balance increased by \$0.1 million due to a slight increase in the Cemetery Perpetual Care Fund assets. See Table 3 for more information.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund increased \$6.2 million to \$19.6 million, or approximately 54 percent of total General Fund expenditures. Revenues and other financing sources exceeded expenditures and other financing uses by \$8.2 million primarily due to the town's strict spending cuts in response to the COVID-19 pandemic. Business license revenues (BPOL) continue to show strong collections as businesses thrive to remain open during the pandemic. The town received at year end about \$12.7 million of American Rescue Plan Act (ARPA) funding to assist local governments recover from the COVID-19 pandemic to due negative economic impacts. The General Fund's unassigned fund balance is available for spending at the town's discretion and represents approximately 51 percent of the total fund balance of the governmental funds. See Table 3 for more information.
- For the current fiscal year end, General Fund total revenues missed the amended budget figures by approximately \$0.2 million. Parks and Recreation's charges for services, permits and licenses, and fines and forfeitures all decreased due the COVID-19 pandemic. Total expenditures and transfers out were less than the amended budget amounts by \$10.4 million, mostly due to other financial sources, transfers in, and strict spending controls enacted at the onset of the pandemic and a freeze in the hiring of personnel. See Table 4 for more information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2021 (Continued)

- Government-wide net capital assets increased by \$2.1 million from the prior fiscal year, with new investments of \$4.4 million related to the Downtown Parking Fund land that was held for sale being transferred into the government activities. See Table 5 for more information.
- The town's total outstanding debt is \$21.9 million, which is a decrease of \$1.2 million, driven mainly by debt service payments during the normal course of business. See Table 6 for more information.

USING THE FINANCIAL SECTION OF THIS ANNUAL FINANCIAL REPORT

Management's discussion and analysis is intended to serve as an introduction to the town's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to financial statements. This report includes required supplementary information and other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the town's finances, in a manner like private-sector business. The statements provide readers an insight in short term and long-term financial position for the town during the fiscal year.

The *Statement of Net Position* presents information on all the town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the town is improving or declining. In addition, nonfinancial factors, such as a change in the town's real estate assessment values or the condition of the town's facilities and infrastructure, should be considered in assessing the overall financial health of the town.

The *Statement of Activities* presents information showing how the town's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when the cash is received or paid (accrual basis of accounting). Thus, certain revenues and expenses are reported in this statement for items that will result in cash flows for future periods (e.g., uncollected taxes and earned but unused employee annual leave).

Both government-wide financial statements segregate functions of the town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a substantial portion of their expenses through user fees and charges (business-type activities). The government-wide financial statements are segregated as follows:

Governmental Activities - Many of the activities, programs and services traditionally identified with government are reported here. These activities and services are Legislative, Administration, Town Attorney, Parks and Recreation, Finance, Community Development, Police, and Public Works.

These activities are financed primarily through property taxes, other local taxes, charges for services, and intergovernmental revenues (federal, state and local grants).

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-Wide Financial Statements (Continued)

Business-type Activities – These activities are intended to recover all or a significant portion of their expenditures through charge for services or user fees. At the end of the fiscal year, the town has three business-type activities funds: The Water and Sewer Fund (provides customers with water distribution and sewer conveyance); the Golf Course Fund (provides customers with recreational golfing opportunities); the Chestnut Grove Cemetery Fund (operates and manages the Chestnut Grove Cemetery).

Fund Financial Statements

The fund financial statements provide more detailed information about the town's more significant funds. A "fund" is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or purposes. The town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the town's basic services are included in governmental funds which focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out, and (2) the balances remaining at fiscal year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader in determining whether there are more or fewer financial resources that can be spent in the near future to finance the town's programs.

Proprietary Funds – These funds are used to account for the operations that are financed in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both short-term and long-term financial information. The town uses *enterprise funds* (one type of proprietary fund) to account for the activities of the Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, and Downtown Parking Fund.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside of town government. The town is responsible for ensuring the assets reported in the fund are used for their intended purposes. The town's fiduciary activities are reported in a separate statement of fiduciary net position. The town excludes these activities from the town government-wide financial statements because the town cannot use these assets to finance its programs. The town's fiduciary fund accounts for the Police Supplemental Retirement Pension Trust Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Statement of Net Position:

The following table presents a condensed version of Exhibit A-1, Statement of Net Position, in comparative format:

Table 1
Summary Statement of Net Position
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 67,342	\$ 49,503	\$ 16,307	\$ 20,194	\$ 83,650	\$ 69,697
Capital assets, net	82,926	80,834	25,313	27,921	108,239	108,756
Total assets	150,269	130,337	41,621	48,116	191,889	178,453
Deferred outflows of resources	6,579	3,850	656	456	7,234	4,306
Current and other liabilities	16,266	6,359	1,241	1,497	17,507	7,856
Non-current liabilities	27,306	22,654	12,409	13,554	39,715	36,208
Total liabilities	43,572	29,014	13,650	15,050	57,222	44,064
Deferred inflows of resources	13,769	14,319	221	191	13,990	14,510
Net Position:						
Net investment in capital assets	76,256	73,312	14,819	17,092	91,075	90,404
Restricted	1,847	1,781	161	156	2,008	1,937
Unrestricted	21,403	15,761	13,426	16,083	34,829	31,844
Total net position	\$ 99,506	\$ 90,854	\$ 28,406	\$ 33,331	\$ 127,912	\$ 124,185

Net position may serve over time as a useful indicator of the town's financial position. The town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$127.9 million, representing an increase of \$3.7 million from the prior year. About 27 percent of the town's net position is unrestricted and available to meet the town's ongoing obligations to citizens and creditors. The larger net position sub-component, labeled "Net investment in capital assets," reflects the town's investment in capital assets (e.g., land, infrastructure, buildings, improvements, machinery and equipment, intangible assets and construction in progress), net of accumulated depreciation and amortization and outstanding debt associated with acquisitions. The town uses its capital assets to provide services to its citizens; consequently, these assets are not readily available for future spending. Although the town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets would not likely be used to liquidate these liabilities.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities:

The following table summarizes Exhibit A-2, Changes in Net Position, in comparative format:

Table 2
Summary of Changes in Net Position
For the Fiscal Years Ended June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 2,224	\$ 3,140	\$ 9,704	\$ 8,906	\$ 11,928	\$ 12,046
Operating grants and contributions	4,583	3,765	-	-	4,583	3,765
Capital grants and contributions	2,167	4,946	-	-	2,167	4,946
Total program revenues	8,974	11,851	9,704	8,906	18,678	20,757
General revenues:						
General property taxes	12,837	12,256	-	-	12,837	12,256
Other local taxes	14,706	14,479	-	-	14,706	14,479
Use of money and property	555	1,079	23	224	578	1,303
Intergovernmental non-categorical aid	1,304	1,461	14	450	1,318	1,911
Miscellaneous	259	179	563	576	822	755
Total general revenues	29,661	29,454	600	1,250	30,261	30,704
Total revenues	38,635	41,305	10,304	10,156	48,939	51,461
Expenses:						
General government administration	6,580	6,690	-	-	6,580	6,690
Parks and recreation	3,313	4,650	-	-	3,313	4,650
Community development	2,319	2,205	-	-	2,319	2,205
Police	10,802	11,141	-	-	10,802	11,141
Public works	11,861	12,811	-	-	11,861	12,811
Interest	305	328	-	-	305	328
Water and sewer	-	-	7,461	7,246	7,461	7,246
Golf course	-	-	1,685	1,516	1,685	1,516
Chestnut Grove cemetery	-	-	784	683	784	683
Downtown parking	-	-	102	61	102	61
Total expenses	35,180	37,825	10,032	9,506	45,212	47,331
Change in net position before transfers	3,455	3,480	272	650	3,727	4,130
Transfers	5,197	(12)	(5,197)	12	-	-
Change in net position	8,652	3,468	(4,925)	662	3,727	4,130
Net position, July 1	90,854	87,386	33,331	32,669	124,185	120,055
Net position, June 30	\$99,506	\$90,854	\$28,406	\$33,331	\$127,912	\$124,185

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Governmental Activities

During the current fiscal year, governmental-type activities increased the town's net position by \$8.6 million as revenues exceeded expenses and transfers.

Revenues: For the current fiscal year ended June 30, 2021, revenues for governmental activities totaled \$38.6 million, a decrease of \$2.7 million or 6.5 percent decrease from the prior fiscal year. Total program revenues decreased by \$2.9 million and total general revenues increased by \$0.2 million.

The decrease in total program revenues consists of a \$2.8 million decrease in capital grants and contributions, and a \$0.9 million decrease in charges for services. Charges for services for governmental activities is mainly comprised of revenues generated by Parks and Recreation programs and services. Charges for services for business-type activities includes customer-paid fees for water and sewer, cemetery, and golf services. In response to the COVID-19 pandemic, the town closed its Parks and Recreation and discontinued programs and services during the fiscal year. Delinquencies in water and sewer bills increased in the fiscal year as the State Corporate Commission mandate of utilities was still in effect. These factors all contributed to the town-wide decrease in charges for service revenues.

Operating grants increased by \$0.8 million, the majority of which was due to the use of CARES Act funding. Capital grants and contributions decreased by \$2.8 million primarily because of the COVID-19 Pandemic from the state and federal level caused delays in major projects and funding sources.

Total general revenues increased by \$0.2 million from the prior fiscal year, driven primarily by increases in general property taxes and other local taxes, partially offset by decreases in interest income and rental income (use of money and property). This was due to historically low interest rates and reduced rents for the fiscal year.

General property taxes, the town's single largest revenue source, increased by \$0.6 million from the prior fiscal year due to an increase in assessments of taxable real property. The taxable assessed value of real property within the town, including Public Service Corporations (PSCs), for calendar year 2020 (fiscal year 2021) was \$5.0 billion, an increase of 5.25 percent over the prior year's taxable assessed values. Residential property values increased by 3.45 percent and commercial property values rose by 2.6 percent. Assessed values for PSCs by 3.2 percent. The town's real estate tax rate remained at \$0.265 per \$100 of assessed value.

Other local taxes, the town's largest combined revenue source, slightly increased by \$0.2 million from prior fiscal year. Other local taxes remained consistent with prior fiscal year due to Covid-19 Pandemic ramifications. BPOL increased \$0.9 million and local sales tax increased \$0.1 which offset decreases to Transient Occupancy Tax of \$0.7 million, and a combined decrease in meals and cigarette tax of \$0.1 million.

Changes in other categories of general revenues include a decrease of \$0.5 million in use of money and property (investment income) since interest rates dropped precipitously during the pandemic.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Activities: (Continued)

Expenses: For the current fiscal year ended, expenses for governmental activities totaled \$35.2 million, a decrease of \$2.6 million or 7.0 percent from the prior fiscal year.

The town's three largest programs, other than general government administration, are public safety, public works, and parks and recreation. These three programs comprise 74 percent of total governmental expenses.

Expenses related to parks and recreation decreased by \$1.3 million, driven primarily by the discontinuation of programs and events during the fiscal year. Public Safety and Public works both had decreases in expenditures at \$0.3 and \$0.9 million, respectively. This was due to strict spending requirements put in place. Interest expense on outstanding debt decreased by \$0.2 million.

Business-Type Activities

During the current fiscal year, business-type activities net position decreased by \$4.9 million primarily due to transfers out of \$5.2 million to governmental activities. During the year, the town transferred the Downtown Parking Fund from business-type activities to governmental activities. Not considering the transfer out of the Downtown Parking Fund, business-type activities total revenue exceeded expenditures by \$0.3 million.

Charges for services revenue increased by \$0.8 million as golf and Chestnut Grove Cemetery funds experienced inclining revenues from the prior year. The Water and Sewer Fund was down about \$0.6 million primarily due to availability fees decreasing as a result of a decline in new service connections and the State Corporate Commission mandate halting water cut-offs.

The \$0.5 million increase in total expenses was driven primarily by all funds still maintaining operations during the current fiscal year with the Golf and Chestnut Grove Cemetery funds experiencing higher activity during the pandemic than expected.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds - The General Fund is the major governmental fund of the town. The town's other governmental funds are the Capital Projects Fund and two non-major governmental funds - the Information Systems Improvement Fund (IS Fund) and the Chestnut Grove Cemetery Perpetual Care Fund. The IS Fund was closed during the fiscal year. See Note 1 in the notes to financial statements section for more fund information.

The following table summarizes the fund balance section of Exhibit A-3, Governmental Fund Balances, in comparative format:

Table 3
Governmental Fund Balances
As of June 30
(in thousands)

	General		Capital Projects		Non-Major Governmental		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Non-spendable	\$ 258	\$ 166	\$ -	\$ -	\$ -	\$ -	\$ 258	\$ 166
Restricted	1,095	2	4,506	4,514	1,847	1,780	7,448	6,296
Committed	-	-	-	-	-	-	-	-
Assigned	6,115	5,338	4,640	5,292	-	16	10,755	10,646
Unassigned	19,560	13,294	-	-	-	-	19,560	13,294
Total fund balances	\$27,028	\$18,800	\$ 9,146	\$ 9,806	\$1,847	\$1,796	\$38,021	\$30,402

As of the end of the current fiscal year, the town's total governmental fund balance increased by 25% to \$38.0 million from the prior fiscal year. The main driver of this increase was the General Fund, which increased by \$8.2 million, partially offset by a decrease in the Capital Projects Fund at \$0.7 million and a slight increase in Cemetery Perpetual Care fund balance at \$0.1 million. The General Fund Unassigned Fund Balance increased by \$6.3 million as General Fund revenues exceeded expenditures and transfers out, driven mainly by use of CARES funding to cover eligible expenditures, salary vacancy savings, and strict expenditure controls implemented in response to the COVID-19 pandemic. The General Fund Unassigned Fund Balance of \$19.6 million represents approximately 54 percent of the General Fund's expenditures, excluding transfers out, for fiscal year 2021.

The Capital Projects Fund restricted fund balance is comprised mainly of stormwater taxes collected by Fairfax County on real property within the town's limit, to be spent only on qualifying stormwater projects and bond proceeds from the Town's refunding of past debt issuance. The slight decrease was due to the Town not receiving a small grant for FY2021. Capital Project's assigned fund balance decreased \$0.7 million primarily as a result of total FY 2021 expenditures exceeding total revenues by \$0.6 million.

Non-Major Governmental fund balances increased \$0.1 million from the prior fiscal year. This slight increase is primarily attributable to the small increase in assets of the Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued):

Proprietary funds - The financial statements for the town's enterprise funds, which are a type of proprietary fund, provide the same type of information found in the government-wide financial statements for business-type activities, but in greater detail. The enterprise funds' total net position of the three funds increased by \$0.36 million from the prior year. The Downtown Parking Fund is excluded from this analysis because the fund was transferred to governmental activities. Unrestricted net position, shown in Exhibit A-8, for each of the four enterprise funds increased or (decreased) from the prior year as follows:

- Water and Sewer Fund \$10.8 million to \$11.1 million increase
- Golf Course Fund \$0.21 million to \$0.96 million increase
- Chestnut Grove Cemetery Fund \$0.89 million to \$1.34 million increase

The combined operating income of all the proprietary funds increased \$0.54 million from fiscal year 2020 to fiscal year 2021. The Water and Sewer fund posted a loss of \$.51 million while the Golf Fund and Chestnut Grove Cemetery Funds posted operating income of \$0.60 million and \$0.51 million, respectively as shown on Exhibit A-9. The Downtown Parking fund posted an operating loss \$0.05 million. The Water and Sewer Fund's operating income loss is primarily attributable to a 7 percent rate decrease for revenues when compared to the prior year due to Virginia State Corporate Commission suspension of utility service connection during the covid-19 pandemic.

The Cemetery Fund posted net position increase of \$0.38 million due to a 14 percent increase in total assets. Net non-operating expenses outweighed non-operating revenues at \$0.085 million due to higher interest expense costs. Net position in the Golf Fund increased \$0.60 million, due primarily to an 85 percent increase in operating revenues because of higher interest in golf as an activity allowable for Covid-19 and a new golf system to book appointments contributed to the increase. See Exhibits A-8 and A-9 for further details.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

The following table summarizes information found in Exhibit A-7, Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund:

Table 4
General Fund Budget to Actual
(in thousands)

	Fiscal Year 2021			Over / (Under)
	Original Budget	Amended Budget	Actual	
Taxes	\$ 23,007	\$ 24,480	\$ 27,385	\$ 2,905
Intergovernmental	4,478	8,750	7,122	(1,628)
Other	3,839	3,839	2,789	(1,050)
Total revenues	31,324	37,069	37,296	227
Expenditures	33,304	38,939	34,465	(4,474)
Transfers out (in) & other	-	515	(5,397)	(5,912)
Total expenditures	33,304	39,454	29,068	(10,386)
Change in fund balance	(1,980)	(2,385)	8,228	10,613
Fund balance, beginning	18,800	18,800	18,800	-
Fund balance, ending	\$ 16,820	\$ 16,415	\$ 27,028	\$ 10,613

The final amended budget appropriations, which include expenditures and transfers out, exceeded the original budget by \$6.1 million in fiscal year 2021. During the start of the fiscal year, the town sequestered \$5.5 million, and Town Council authorized \$33.3 million of spending. As the town carefully monitored revenues, items were released throughout the year based on the needs.

At the conclusion of the fiscal year, total revenues slightly exceed by \$0.2 million more than the amended budget amounts. Actual expenditures and transfers out were lower than the amended budget amounts by \$10.4 million. This was primarily due to bond refunding sources of \$5.1 million and restrictions on spending by the town. Highlights of the comparison of amended budget to actual figures for the fiscal year ended June 30, 2021 include the following:

- Tax revenues exceeded expectations with meals tax and BPOL tax coming in with higher actuals. Specifically, right of way fees, cigarette tax underperformed budget by, \$0.017, and \$0.047 million, respectively. These declines were offset by BPOL exceeding budget by \$1.0 million. BPOL was collected in the second half of fiscal year 2021 which showed businesses reopening during the COVID-19 Pandemic and totaled nearly \$6.7 million, as shown in Statistical Table 5. General property taxes and sales taxes were in line with budget.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

- Intergovernmental revenues were \$1.6 million lower than the amended budget. This was due to majority of the CARES Act grant received and used in Fiscal Year 2020, earlier than expected. Most intergovernmental revenues came in as expected with communications sales and use tax slightly under budget by \$0.013 million.
- The \$0.7 million variance between budget and actuals in the charges for services revenues category is the result of curtailed charges for services due to the COVID-19 pandemic. The Herndon Community Center was closed during the fiscal year. Programs, classes, and events were cancelled, and refunds were issued. Fines and forfeitures were down \$0.1 million while use of money and property was slightly down \$0.1 million as a result of rental income being delayed during the COVID-19 Pandemic.
- Total expenditures excluding transfers out and other financing uses came in under amended budget by \$4.5 million. Expenditure amounts for all the operating departments were less than the amended budgets. Debt Services came in over budget by \$4.5 million due to the refunding of bonds in the fiscal year. Personnel costs including employee benefits were \$0.9 million favorable to the amended budget which is mostly due to employee vacancy savings throughout the fiscal year.
- Transfers out and other financing sources were \$0.6 million under the amended budget all transfers from the General Fund to the CIP fund were still frozen in fiscal year 2021. Projects not funded include downtown parking, Bready Park tennis court renovations, sidewalks and minor trails, and the town's contribution to the Herndon Parkway/Spring Street/Fairfax County Parkway project.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

As of June 30, 2021, the town had invested approximately \$108.2 million, a decrease of \$0.5 million from the prior fiscal year, in a variety of capital assets as reflected in the following table. More detailed information on capital assets can be found in Note 6 of the notes to the financial statements.

Table 5
Summary of Capital Assets
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 26,800	\$ 27,910	\$ 2,540	\$ 3,565	\$ 29,340	\$ 31,475
Construction in progress	9,699	2,849	320	1,499	10,019	4,348
Infrastructure	82,563	82,563	-	-	82,563	82,563
Buildings	42,176	42,161	3,552	3,552	45,728	45,713
Improvements other than buildings	17,215	17,171	36,115	35,373	53,330	52,544
Machinery and equipment	11,444	11,710	4,035	3,678	15,479	15,388
Intangibles and purchased capacity	1,137	1,137	16,166	16,166	17,303	17,303
Furniture and fixtures	1,135	1,135	195	195	1,330	1,330
Accumulated depreciation	(109,243)	(105,802)	(37,610)	(36,107)	(146,853)	(141,909)
Total capital assets, net	\$ 82,926	\$ 80,834	\$ 25,313	\$ 27,921	\$ 108,239	\$ 108,755

The net decrease in the town's capital asset investment is attributable to the increase in accumulated depreciation of \$4.9 million exceeding new investments of \$4.4 million. Significant changes include land decreasing by \$2.1 million, construction in progress increasing by \$5.7 million, and improvements increasing by \$0.8 million.

Major capital asset transactions during the fiscal year in both governmental and business-type activities are as follows:

- The decrease in the land category was primarily from the land that was contributed to Comstock Herndon in the amount of \$1.1 million and \$1.0 from governmental and business-type activities, respectively.
- The increase in construction in progress is primarily from the \$6.3 million worth land and land improvements that was contributed to Comstock Herndon for the future right to parking spaces in the Downtown Parking Garage and the Arts Center Shell to be built by Comstock Herndon soon.
- The increase in improvements is primarily from the completion of the Third Street Water Tank rehabilitation in the Water and Sewer Fund.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (continued)

- The downtown undergrounding project, and several street and intersection projects were in progress. In the Water and Sewer fund, the SCADA system upgrade and several water and sewer line improvement projects were in progress.

During the fiscal year, significant design and specifications, right-of-way acquisition, and utility relocation efforts progressed on other critical transportation projects including the Herndon Parkway and Van Buren Street intersection improvements project; Van Buren Complete Streets; Elden and Monroe streets intersection improvements; and Elden and Center streets intersection improvements. More detailed information on future capital improvements can be found in the town's adopted six-year Capital Improvement Program (CIP).

LONG-TERM DEBT

The following table summarizes information found in Note 8, Long-Term Debt in the notes to the financial statements.

Table 6
Summary of General Obligation Bonds and Other Obligations
As of June 30
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation (GO) bonds	\$ 10,968	\$ 11,763	\$ 7,660	\$ 7,806	\$ 18,628	\$ 19,569
Fairfax Water obligations	-	-	3,179	3,419	3,179	3,419
GO bonds - premiums	138	186	-	11	138	197
Total long-term outstanding debt	\$ 11,106	\$ 11,949	\$ 10,839	\$ 11,236	\$ 21,945	\$ 23,185

At the end of fiscal year 2021, the town had \$21.9 million in outstanding long-term general obligations bonds, other obligations, and premiums, as reflected in the following table. This represents a decrease of \$1.2 million from the prior fiscal year, driven by debt service payments during the normal course of business.

As of the end of fiscal year 2021, the town's issuer rating from the three credit ratings agencies remained as follows: AAA from Fitch Investor Service, Aaa from Moody's Investor Service, Inc., and AAA from Standard and Poor's Corporation. More detailed information on long-term debt can be found in Note 8 of the notes to the financial statements.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The total adopted fiscal year 2022 budget (all funds), including inter-fund transfers, is \$55.8 million which is about 8.7 percent lower than the original budget for fiscal year 2021. However, because of the unknown effects that COVID-19 may continue to have on revenues, the town carefully cut expenditures to ensure revenue targets are set and met. This decrease is the result of reductions in the General Fund, Capital Projects fund and Water and Sewer fund of \$3.5, \$3.1, and \$1.3 million, respectively. The town maintained its real estate tax rate of \$0.265 per \$100 of assessed value for fiscal year 2022. All other excise taxes and fees town-wide remain unchanged from fiscal year 2021.

The town's revenues from taxes performed close to budget in total during fiscal year 2021. Excise taxes such as meals and transient occupancy taxes came in at or above budgeted and real estate taxes performed in line with budget. The town typically budgets BPOL very conservatively because of the volatile nature of this revenue source, and treats amounts exceeding budget as one-time revenues to fund capital or other one-time costs. However, as financial uncertainty in the face of the pandemic continues into fiscal year 2022 and beyond, the town has responded by keeping strict spending controls in place in anticipation of significant decreases in certain excise taxes, charges for parks and recreation programs and services, and interest income. While the assessed values of taxable real property increased by 1.7 percent for calendar year 2021 (fiscal year 2022), real estate assessments lag the economy by at least a year. The residential real estate market through the date of this report has been active as homebuyers take advantage of historically low mortgage rates; however, available housing inventory remains low. On the other hand, the commercial retail real estate market has suffered as a result of the pandemic and continues.

As of September 2021, the unemployment rate in Washington metropolitan area (which includes the Town of Herndon) was 4.1 percent compared to 5.7 percent in September 2020. In comparison, the September 2021 unemployment rates for the Commonwealth of Virginia and the United States were 3.8 percent and 4.8 percent, respectively, according to the Bureau of Labor Statistics.

CURRENTLY KNOWN FACTS EXPECTED TO AFFECT FINANCIAL POSITION

In addition to the unprecedented financial uncertainty wrought by the COVID-19 pandemic, other factors expected to affect the town's financial position include the downtown redevelopment project, rising cost due to the supply chain market shortages and American Rescue Plan Act funding the town received.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENTLY KNOWN FACTS EXPECTED TO AFFECT FINANCIAL POSITION (Continued)

Following months of review and significant input from the public, in the fall of 2017 the Herndon Town Council adopted a resolution to enter into a comprehensive agreement with Comstock Herndon Venture, LC for the redevelopment of 4.675 acres in Herndon's downtown. The town's additional financial obligations include \$3.6 million in payments to Comstock Herndon Venture, LC during the construction phase of the project, and between \$2.5 and \$3.5 million for the design and construction of the Arts Center component of the project. This project has experienced delays since the signing of the comprehensive agreement.

In Fiscal Year 2021, the Herndon Town Council approved a resolution that amended the comprehensive agreement with Comstock, to advance the project on November 17, 2020. This amendment allowed continued interim use by the town of the property for the existing ArtSpace and provides for public shared parking. Also, it established a date by which Comstock must have the project under construction which is December 31, 2021. The town transferred the development site to Comstock on December 15, 2020 per the amended comprehensive agreement.

Also, the town approved several incentives for the project via the town's Arts District ordinance. This will be done by utilizing fee reductions and refunding the town's portion of property taxes on the completed project for up to 10 years. The fee reductions are 50% for Water Availability fees of \$950,000; Sewer Availability fees of \$1,300,000; and Base Building Permit fees of \$100,000 for a total fee reduction of \$2,350,000. Town property taxes are proposed to be refunded for up to ten years valued at \$1,908,000. In addition, the town is deferring the recreational proffer of \$491,000 for ten years and eliminating the Arts Center mezzanine valued at \$250,000.

The town has an appropriation of \$3.6 million as part of this agreement for the project. In return, the town will be receiving public parking, an arts center shell, public improvements, temporary parking, arts center, and environmental upgrades that accumulate to about \$16.6 million in value. More detailed information about the downtown redevelopment project can be found in the comprehensive agreement on the town's website.

The town is anticipating increasing costs in expenditures as departments such as public works, parks and recreation, police, community development, information technology are experience increasing costs in all their expenditures due to the supply chain market that is affecting the economy currently due to the effects of the Covid-19 pandemic. Inflation rate has reached a 13-year high at 5.4% at the end of September 2021 which increased dramatically compared to September 2020 where inflation was at 1.4%. Also, the town has begun re-hiring of positions that were frozen due to the pandemic. As positions become filled, department personnel expenditures will increase.

Capital expenditure projects were also halted and placed budgetary constraints on projects due to the pandemic. Budgetary amounts for fiscal year 2022 capital projects were about 57 percent lower than previous fiscal year 2021. The town did receive additional funding from the US Treasury as part of the American Rescue Plan Act. The town received its first installment of the funds at the end of fiscal year 2021 in the amount of \$12.7 million. The funds will help with operational maintenance back log items and help relieve some of the budgetary constraints on the capital projects that were halted in fiscal year 2020 and fiscal year 2021 due to the covid-19 pandemic.

TOWN OF HERNDON, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the town's finances and to demonstrate the town's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, Town of Herndon, Department of Finance, 777 Lynn St., Herndon, VA 20170. The telephone number is (703) 435-6810 or visit the town's web site at www.herndon-va.gov



www.herndon-va.gov

BASIC FINANCIAL STATEMENTS

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TOWN OF HERNDON, VIRGINIA

Exhibit A-1

STATEMENT OF NET POSITION
June 30, 2021

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and investments (Note 2)	\$ 43,971,179	\$ 14,243,262	\$ 58,214,441
Cash and investments with fiscal agent (Note 2)	4,436,190	-	4,436,190
Receivables, net:			
Property taxes (Note 3)	12,701,362	-	12,701,362
Trade and other accounts (Note 3)	986,566	1,672,759	2,659,325
Accrued interest	55,858	-	55,858
Due from other governments (Note 3)	3,100,068	-	3,100,068
Inventories	182,092	46,685	228,777
Prepaid costs	40,364	-	40,364
Cash, cash equivalents and investments - restricted (Note 2)	1,833,109	344,741	2,177,850
Notes receivable (Note 5)	35,573	-	35,573
Capital assets: (Note 6)			
Nondepreciable	36,499,642	2,859,881	39,359,523
Depreciable, net	46,426,563	22,453,333	68,879,896
Total assets	150,268,566	41,620,661	191,889,227
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions (Notes 9 and 13)	5,487,277	542,380	6,029,657
Deferred outflows related to other postemployment benefits (Notes 11, 12, and 13)	1,091,295	113,489	1,204,784
Total deferred outflows of resources	6,578,572	655,869	7,234,441
LIABILITIES			
Accounts payable	698,110	857,897	1,556,007
Accrued payroll	320,402	76,633	397,035
Accrued liabilities - other	722,672	76,965	799,637
Accrued interest	101,957	23,060	125,017
Unearned revenue (Note 7)	12,863,363	-	12,863,363
Customer deposits	1,559,752	205,951	1,765,703
Noncurrent liabilities:			
Due within one year (Note 8)	1,316,326	491,855	1,808,181
Due in more than one year (Note 8)	12,199,243	10,611,706	22,810,949
Net pension liability (Notes 9 and 13)	8,559,379	837,496	9,396,875
Net other postemployment benefit liability (Notes 11, 12, and 13)	5,230,787	468,093	5,698,880
Total liabilities	43,571,991	13,649,656	57,221,647
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions (Notes 9 and 13)	271,993	26,613	298,606
Deferred inflows related to other postemployment benefits (Notes 11, 12, and 13)	911,481	194,675	1,106,156
Property taxes (Note 7)	12,585,228	-	12,585,228
Total deferred inflows of resources	13,768,702	221,288	13,989,990
NET POSITION			
Net investment in capital assets	76,256,170	14,818,995	91,075,165
Restricted:			
Lateral program	-	160,515	160,515
Cemetery Perpetual Care Fund - expendable	1,847,341	-	1,847,341
Unrestricted	21,402,934	13,426,076	34,829,010
Total net position	\$ 99,506,445	\$ 28,405,586	\$ 127,912,031

The Notes to Financial Statements are an integral part of this Statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-2

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
Legislative	\$ 566,955	\$ -	\$ -	\$ -	\$ (566,955)		\$ (566,955)
Administration	3,423,026	8,485	-	-	(3,414,541)		(3,414,541)
Town attorney	1,001,496	-	-	-	(1,001,496)		(1,001,496)
Parks and recreation	3,312,797	472,882	-	-	(2,839,915)		(2,839,915)
Finance	1,588,972	583,894	-	-	(1,005,078)		(1,005,078)
Community development	2,318,909	-	140,000	-	(2,178,909)		(2,178,909)
Police	10,801,750	259,372	3,208,911	-	(7,333,467)		(7,333,467)
Public works	11,860,528	898,653	1,234,256	2,167,274	(7,560,345)		(7,560,345)
Interest	305,188	-	-	-	(305,188)		(305,188)
Total governmental activities	35,179,621	2,223,286	4,583,167	2,167,274	(26,205,894)		(26,205,894)
Business-type activities:							
Water and sewer	7,461,338	6,342,651	-	-		\$ (1,118,687)	(1,118,687)
Golf course	1,684,876	2,216,761	-	-		531,885	531,885
Chestnut Grove cemetery	784,405	1,144,677	-	-		360,272	360,272
Downtown parking	101,603	-	-	-		(101,603)	(101,603)
Total business-type activities	10,032,222	9,704,089	-	-		(328,133)	(328,133)
Total government	<u>\$ 45,211,843</u>	<u>\$ 11,927,375</u>	<u>\$ 4,583,167</u>	<u>\$ 2,167,274</u>	<u>(26,205,894)</u>	<u>(328,133)</u>	<u>(26,534,027)</u>
General Revenues:							
Taxes:							
General property					12,837,288	-	12,837,288
Business licenses					6,786,720	-	6,786,720
Transient occupancy					855,309	-	855,309
Meals					2,876,751	-	2,876,751
Local sales					2,033,030	-	2,033,030
Consumer utility					781,368	-	781,368
Bank stock tax					406,526	-	406,526
Motor vehicle licenses					432,593	-	432,593
Other local taxes					533,931	-	533,931
Revenues not restricted to specific programs					73,470	-	73,470
Intergovernmental, non-categorical aid					1,304,101	14,220	1,318,321
Use of money and property					555,187	22,505	577,692
Gain on sale of capital assets					80,168	-	80,168
Miscellaneous and lease income					104,917	562,910	667,827
Transfers					5,196,589	(5,196,589)	-
Total general revenues and transfers					34,857,948	(4,596,954)	30,260,994
Change in net position					8,652,054	(4,925,087)	3,726,967
Net position, July 1					90,854,391	33,330,673	124,185,064
Net position, June 30					<u>\$ 99,506,445</u>	<u>\$ 28,405,586</u>	<u>\$ 127,912,031</u>

The Notes to Financial Statements are an integral part of this statement.

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TOWN OF HERNDON, VIRGINIA

**Exhibit A-3
Page 1**

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021**

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash, cash equivalents and investments	\$ 40,685,704	\$ 3,285,475	\$ -	\$ 43,971,179
Cash and investments with fiscal agent	1,005,016	3,431,174	-	4,436,190
Receivables (net of allowance for doubtful accounts):				
Property taxes	12,701,362	-	-	12,701,362
Trade and other accounts	986,566	-	-	986,566
Notes	35,573	-	-	35,573
Accrued interest	37,445	4,181	14,232	55,858
Due from other governments	619,970	2,480,098	-	3,100,068
Inventories	182,092	-	-	182,092
Prepaid costs	40,364	-	-	40,364
Cash, cash equivalents and investments - restricted	<u>-</u>	<u>-</u>	<u>1,833,109</u>	<u>1,833,109</u>
Total assets	<u><u>\$ 56,294,092</u></u>	<u><u>\$ 9,200,928</u></u>	<u><u>\$ 1,847,341</u></u>	<u><u>\$ 67,342,361</u></u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-3
Page 2BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 642,958	\$ 55,152	\$ -	\$ 698,110
Accrued payroll	320,402	-	-	320,402
Accrued liabilities - other	722,672	-	-	722,672
Unearned revenue	12,863,363	-	-	12,863,363
Customer deposits	1,559,752	-	-	1,559,752
Total liabilities	16,109,147	55,152	-	16,164,299
Deferred inflows of resources:				
Unavailable revenue - property taxes	12,701,361	-	-	12,701,361
Unavailable revenue - other	455,304	-	-	455,304
Total deferred inflows of resources	13,156,665	-	-	13,156,665
Fund Balances:				
Nonspendable:				
Inventories	182,092	-	-	182,092
Prepaid costs	40,364	-	-	40,364
Notes receivable	35,573	-	-	35,573
Restricted:				
Bond proceeds not yet spent	1,005,016	3,431,174	-	4,436,190
Cemetery perpetual care	-	-	1,847,341	1,847,341
Stormwater	-	1,074,516	-	1,074,516
Brownfields grant	90,250	-	-	90,250
Assigned:				
Revenue stabilization	1,800,000	-	-	1,800,000
Operating & capital costs	793,476	3,204,253	-	3,997,729
Capital reserve	2,491,979	-	-	2,491,979
Contingency reserve	900,000	-	-	900,000
e-Summons	27,673	-	-	27,673
Subsequent years' expenditures for:				
General Fund	101,478	-	-	101,478
Capital Projects Fund	-	1,435,833	-	1,435,833
Unassigned:				
General Fund	19,560,379	-	-	19,560,379
Total fund balances	27,028,280	9,145,776	1,847,341	38,021,397
Total liabilities, deferred inflows of resources and fund balances	\$ 56,294,092	\$ 9,200,928	\$ 1,847,341	\$ 67,342,361

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-4

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2021**

Total fund balances - governmental funds		\$ 38,021,397
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		82,926,205
Unavailable revenue represents amounts that were not available to fund current expenditures, and, therefore, is not reported as revenue in the governmental funds.		571,437
Financial statement elements related to other postemployment benefits and pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows related to:		
Pensions	5,487,277	
Other postemployment benefits	<u>1,091,295</u>	
		6,578,572
Deferred inflows related to:		
Pensions	(271,993)	
Other postemployment benefits	<u>(911,481)</u>	
		(1,183,474)
Net pension liability		(8,559,379)
Net other post employment benefits liability		(5,230,787)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Bonds payable, including unamortized premiums and discounts	(11,106,523)	
Compensated absences	(2,409,046)	
Interest payable	<u>(101,957)</u>	
		(13,617,526)
Net position of governmental activities		<u>\$ 99,506,445</u>

The Notes to Financial Statements are an integral part of this statement.

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TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 12,822,398	\$ -	\$ -	\$ 12,822,398
Other local taxes	14,562,162	-	-	14,562,162
Permits, privilege fees and regulatory licenses	457,719	-	-	457,719
Fines and forfeitures	281,512	-	-	281,512
Use of money and property	514,807	21,564	18,816	555,187
Charges for services	1,525,312	-	-	1,525,312
Miscellaneous	9,985	-	-	9,985
Intergovernmental	7,121,523	933,018	-	8,054,541
Total revenues	37,295,418	954,582	18,816	38,268,816
Expenditures:				
Current:				
Legislative	507,091	-	-	507,091
Administration	2,775,022	-	-	2,775,022
Town attorney	726,639	-	-	726,639
Parks and recreation	2,665,348	-	-	2,665,348
Finance	1,477,878	-	-	1,477,878
Community development	1,912,361	-	-	1,912,361
Police	9,849,301	-	-	9,849,301
Public works	9,225,472	-	-	9,225,472
Grants	278,570	-	-	278,570
Non-departmental	377,676	-	-	377,676
Capital outlay	-	1,519,773	2,722	1,522,495
Debt service:				
Principal	4,273,129	-	-	4,273,129
Interest and fiscal charges	396,744	-	-	396,744
Total expenditures	34,465,231	1,519,773	2,722	35,987,726
Excess (deficiency) of revenues over expenditures	2,830,187	(565,191)	16,094	2,281,090

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-5
Page 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ 84,502	\$ -	\$ -	\$ 84,502
Issuance of bonds	5,087,915	-	-	5,087,915
Payments to escrow agent on bond refunding	(1,604,801)	-	-	(1,604,801)
Insurance recoveries	94,932	-	-	94,932
Transfers in	1,734,998	13,600	67,858	1,816,456
Transfers out	-	(109,000)	(32,416)	(141,416)
	<u>5,397,546</u>	<u>(95,400)</u>	<u>35,442</u>	<u>5,337,588</u>
Total other financing sources (uses), net				
	5,397,546	(95,400)	35,442	5,337,588
Net change in fund balances	8,227,733	(660,591)	51,536	7,618,678
Fund balances, July 1	18,800,547	9,806,367	1,795,805	30,402,719
Fund balances, June 30	<u>\$ 27,028,280</u>	<u>\$ 9,145,776</u>	<u>\$ 1,847,341</u>	<u>\$ 38,021,397</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2021**

Net change in fund balances - total governmental funds		\$ 7,618,678
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
<p>Governmental funds report capital outlays as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.</p>		
Expenditure for capital assets	\$ 1,322,688	
Less depreciation and amortization expense	<u>(3,757,262)</u>	
Excess of capital outlay over depreciation and amortization		(2,434,574)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net position:</p>		
Loss on disposal of capital assets		(4,334)
The transfer of capital assets and related debt from enterprise funds to governmental activities are reported as transfers in the government-wide statement of activities.		3,522,867
The transfer of capital assets from governmental activities to enterprise funds are reported as transfers out the government-wide statement of activities.		(1,318)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue		191,170
<p>Bond proceeds provide current financial resources to governmental funds, both issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Issuance of refunding bonds		(5,087,915)
Payments to escrow agent on bond refunding		1,604,801
Principal repayments:		4,273,129
<p>Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
Employer pension contributions		1,231,932
Pension expense		(2,150,082)
<p>Governmental funds report employer other postemployment benefit contributions as expenditures. However, in the statement of activities the cost of these benefits earned, net of employee contributions, is reported as other postemployment benefit expense.</p>		
Employer other postemployment benefit contributions		265,781
Other postemployment benefit expense		(443,027)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.</p>		
Accrued interest	45,490	
Compensated absences	(26,610)	
Amortization of premiums and discounts	<u>46,066</u>	<u>64,946</u>
Change in net position of governmental activities		<u>\$ 8,652,054</u>

The Notes to the Financial Statements are an integral part of this statement.

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TOWN OF HERNDON, VIRGINIA

Exhibit A-7
Page 1

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2021**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 12,728,000	\$ 12,728,000	\$ 12,822,398	\$ 94,398
Other local taxes	10,278,713	11,752,338	14,562,162	2,809,824
Permits, privilege fees and regulatory licenses	571,600	571,600	457,719	(113,881)
Fines and forfeitures	387,500	387,500	281,512	(105,988)
Use of money and property	639,900	639,900	514,807	(125,093)
Charges for services	2,235,796	2,235,796	1,525,312	(710,484)
Miscellaneous	4,000	4,250	9,985	5,735
Intergovernmental	4,478,121	8,749,538	7,121,523	(1,628,015)
Total revenues	31,323,630	37,068,922	37,295,418	226,496
Expenditures:				
Current:				
Legislative	482,012	517,012	507,091	9,921
Administration	2,764,303	2,919,471	2,775,022	144,449
Town attorney	782,165	782,165	726,639	55,526
Parks and recreation	3,199,861	3,215,710	2,665,348	550,362
Finance	1,458,191	1,483,191	1,477,878	5,313
Community development	2,146,700	2,197,205	1,912,361	284,844
Police	10,060,141	10,295,781	9,849,301	446,480
Public works	10,358,359	11,018,583	9,225,472	1,793,111
Grants	-	4,298,484	278,570	4,019,914
Non-departmental	302,452	461,591	377,676	83,915
Debt service:				
Principal	1,548,826	1,548,826	4,273,129	(2,724,303)
Interest and fiscal charges	201,295	201,295	396,744	(195,449)
Total expenditures	33,304,305	38,939,314	34,465,231	4,474,083
Excess (deficiency) of revenues over expenditures	(1,980,675)	(1,870,392)	2,830,187	4,700,579

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

**Exhibit A-7
Page 2**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	\$ -	\$ 65,000	\$ 84,502	\$ 19,502
Issuance of bonds	-	-	5,087,915	5,087,915
Payments to escrow agent on bond refunding	-	-	(1,604,801)	(1,604,801)
Insurance recoveries	-	20,467	94,932	74,465
Transfers in	-	-	1,734,998	1,734,998
Transfers out	-	(600,000)	-	600,000
Total other financing uses, net	-	(514,533)	5,397,546	5,912,079
Net change in fund balance	<u>\$ (1,980,675)</u>	<u>\$ (2,384,925)</u>	<u>\$ 8,227,733</u>	<u>\$ 10,612,658</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8
Page 1

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
ASSETS					
Current Assets:					
Cash, cash equivalents and investments	\$ 11,266,338	\$ 1,482,045	\$ 1,494,879	\$ -	\$ 14,243,262
Receivables (net of allowance for doubtful accounts):	1,657,944	14,815	-	-	1,672,759
Inventories	28,949	17,736	-	-	46,685
Cash, cash equivalents and investments - restricted	344,741	-	-	-	344,741
Total current assets	13,297,972	1,514,596	1,494,879	-	16,307,447
Noncurrent Assets:					
Capital assets:					
Land	200,000	1,621,574	718,500	-	2,540,074
Buildings	-	2,240,527	1,311,437	-	3,551,964
Improvements other than buildings	31,300,796	3,157,597	1,656,239	-	36,114,632
Machinery and equipment	2,901,761	920,988	212,834	-	4,035,583
Furniture and fixtures	194,919	-	-	-	194,919
Intangibles	16,166,154	-	-	-	16,166,154
Construction in progress	319,807	-	-	-	319,807
Less accumulated depreciation and amortization	(30,308,615)	(5,389,401)	(1,911,903)	-	(37,609,919)
Total capital assets (net of accumulated depreciation and amortization)	20,774,822	2,551,285	1,987,107	-	25,313,214
Total noncurrent assets	20,774,822	2,551,285	1,987,107	-	25,313,214
Total assets	34,072,794	4,065,881	3,481,986	-	41,620,661
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows	252,235	204,052	86,093	-	542,380
OPEB related deferred outflows	55,349	49,675	8,465	-	113,489
Total deferred outflows of resources	307,584	253,727	94,558	-	655,869

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-8

Page 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 821,217	\$ 21,379	\$ 15,301	\$ -	\$ 857,897
Accrued payroll	35,287	27,667	13,679	-	76,633
Accrued liabilities - other	90,578	5,386	4,061	-	100,025
Due to other governments	284,450	-	-	-	284,450
Compensated absences	24,312	10,987	3,860	-	39,159
Customer deposits	205,401	550	-	-	205,951
Current general obligation bonds payable	120,000	19,638	28,608	-	168,246
Total current liabilities	1,581,245	85,607	65,509	-	1,732,361
Noncurrent Liabilities:					
Compensated absences	89,143	120,859	15,440	-	225,442
Due to other governments	2,894,165	-	-	-	2,894,165
Net pension liability	392,860	311,328	133,308	-	837,496
Net other post employment benefit liability	184,817	247,067	36,209	-	468,093
Long-term general obligation bonds payable, net	6,365,000	354,695	772,404	-	7,492,099
Total noncurrent liabilities	9,925,985	1,033,949	957,361	-	11,917,295
Total liabilities	11,507,230	1,119,556	1,022,870	-	13,649,656
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	12,484	9,893	4,236	-	26,613
OPEB related deferred inflows	119,108	48,609	26,958	-	194,675
Total deferred inflows of resources	131,592	58,502	31,194	-	221,288
NET POSITION					
Net Position:					
Net investment in capital assets	11,455,948	2,176,952	1,186,095	-	14,818,995
Restricted, lateral program	160,515	-	-	-	160,515
Unrestricted	11,125,093	964,598	1,336,385	-	13,426,076
Total net position	\$ 22,741,556	\$ 3,141,550	\$ 2,522,480	\$ -	\$ 28,405,586

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9

Page 1

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2021**

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating revenues:					
Sale of water	\$ 2,794,320	\$ -	\$ -	\$ -	\$ 2,794,320
Sewer service charges	3,490,334	-	-	-	3,490,334
Sale of commodities	8,917	-	-	-	8,917
Rents and leases	405,143	40,578	-	-	445,721
Greens fees	-	1,630,755	-	-	1,630,755
Golf cart revenue	-	388,265	-	-	388,265
Golf pro shop sales	-	73,875	-	-	73,875
Driving range fees	-	123,866	-	-	123,866
Cemetery sites	-	-	678,581	-	678,581
Interment services	-	-	276,115	-	276,115
Merchandise sales	-	-	189,981	-	189,981
Miscellaneous	11,838	21,099	65,810	14,585	113,332
Total operating revenues	6,710,552	2,278,438	1,210,487	14,585	10,214,062
Operating expenses:					
Finance	212,830	-	-	-	212,830
Water services	1,462,027	-	-	-	1,462,027
Sewer services	3,370,015	-	-	-	3,370,015
Contractual services	530,094	36,400	17,400	-	583,894
Golf course operations	-	840,212	-	-	840,212
Golf course club house	-	580,551	-	-	580,551
Cemetery operations	-	-	550,879	-	550,879
Downtown parking	-	-	-	64,468	64,468
Nondepartmental:					
Depreciation and amortization	1,601,493	190,551	123,400	-	1,915,444
Miscellaneous	40,148	30,829	5,979	-	76,956
Total operating expenses	7,216,607	1,678,543	697,658	64,468	9,657,276
Operating income (loss)	(506,055)	599,895	512,829	(49,883)	556,786

(Continued)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-9
Page 2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Nonoperating revenues (expenses):					
Investment earnings, net	\$ 15,583	\$ 1,042	\$ 1,377	\$ 4,503	\$ 22,505
Interest expense	(244,731)	(6,333)	(86,747)	(37,135)	(374,946)
Intergovernmental revenues	14,220	-	-	-	14,220
Insurance recoveries	5,175	-	-	-	5,175
Loss on disposal of capital assets	-	-	-	(3,522,867)	(3,522,867)
Total nonoperating revenues (expenses), net	(209,753)	(5,291)	(85,370)	(3,555,499)	(3,855,913)
Income (loss) before availability fees and transfers	(715,808)	594,604	427,459	(3,605,382)	(3,299,127)
Availability fees	49,080	-	-	-	49,080
Transfers in	-	-	18,816	109,000	127,816
Transfers out	-	-	(67,858)	(1,734,998)	(1,802,856)
Total availability fees and transfers	49,080	-	(49,042)	(1,625,998)	(1,625,960)
Change in net position	(666,728)	594,604	378,417	(5,231,380)	(4,925,087)
Total net position, July 1	23,408,284	2,546,946	2,144,063	5,231,380	33,330,673
Total net position, June 30	\$ 22,741,556	\$ 3,141,550	\$ 2,522,480	\$ -	\$ 28,405,586

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10
Page 1

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities - Enterprise Funds				
	Major Funds				
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	Totals
Operating Activities:					
Receipts from customers	\$ 6,674,481	\$ 2,271,673	\$ 1,210,487	\$ 16,303	\$ 10,172,944
Payments to suppliers for goods and services	(4,749,016)	(430,310)	(202,826)	(123,395)	(5,505,547)
Payments to employees for services	(1,068,406)	(1,045,812)	(361,473)	-	(2,475,691)
Net cash provided by (used in) operating activities	857,059	795,551	646,188	(107,092)	2,191,706
Noncapital Financing Activities:					
Intergovernmental revenues	14,220	-	-	-	14,220
Transfers in from other funds	-	-	18,816	109,000	127,816
Transfers out to other funds	-	-	(67,858)	(1,734,998)	(1,802,856)
Net cash provided by (used in) noncapital financing activities	14,220	-	(49,042)	(1,625,998)	(1,660,820)
Capital and Related Financing Activities:					
Availability fees	49,080	-	-	-	49,080
Acquisition and construction of capital assets	(204,710)	-	(104,397)	(37,500)	(346,607)
Proceeds from refunding bonds issued	-	412,040	840,045	-	1,252,085
Proceeds from the sale of capital assets	3,857	-	-	-	3,857
Payments to escrow agent on bond refunding	-	(392,169)	(813,661)	-	(1,205,830)
Principal paid on bonds	(115,000)	(37,707)	(39,033)	(5,000)	(196,740)
Principal paid to Fairfax Water	(262,569)	-	-	-	(262,569)
Interest paid on bonds	(246,887)	(20,206)	(25,164)	(38,876)	(331,133)
Net cash used in capital and related financing activities	(776,229)	(38,042)	(142,210)	(81,376)	(1,037,857)
Investing Activities:					
Principal received on note receivable	-	-	-	47,431	47,431
Interest received on note receivable	-	-	-	11,187	11,187
Interest received on investment securities	27,097	1,042	2,752	4,503	35,394
Net cash provided by investing activities	27,097	1,042	2,752	63,121	94,012
Net increase (decrease) in cash, cash equivalents and investments	122,147	758,551	457,688	(1,751,345)	(412,959)
Cash, Cash Equivalents and Investments:					
Beginning	11,488,932	723,494	1,037,191	1,751,345	15,000,962
Ending	\$ 11,611,079	\$ 1,482,045	\$ 1,494,879	\$ -	\$ 14,588,003
Cash, Cash Equivalents and Investments is comprised of the following:					
Cash, cash equivalents and investments - unrestricted	\$ 11,266,338	\$ 1,482,045	\$ 1,494,879	\$ -	\$ 14,243,262
Cash, cash equivalents and investments - restricted	344,741	-	-	-	344,741
Total	\$ 11,611,079	\$ 1,482,045	\$ 1,494,879	\$ -	\$ 14,588,003

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-10

Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2021

	Business-type Activities - Enterprise Funds				
	Major Funds				Totals
	Water and Sewer	Golf Course	Chestnut Grove Cemetery	Downtown Parking	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (506,055)	\$ 599,895	\$ 512,829	\$ (49,883)	\$ 556,786
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,601,493	190,551	123,400	-	1,915,444
Pension expense net of employer contributions	41,241	28,292	11,006	-	80,539
Other postemployment benefit expense net of employer contributions	(3,649)	11,846	(2,550)	-	5,647
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	(37,390)	(7,315)	-	1,718	(42,987)
Inventories	(27,166)	4,521	-	-	(22,645)
Increase (decrease) in:					
Accounts payable, accrued liabilities and compensated absences	(212,734)	(32,789)	1,503	(58,927)	(302,947)
Deposits	1,319	550	-	-	1,869
Net cash provided by (used in) operating activities	<u>\$ 857,059</u>	<u>\$ 795,551</u>	<u>\$ 646,188</u>	<u>\$ (107,092)</u>	<u>\$ 2,191,706</u>
Schedule of Noncash Capital and Related					
Capital assets acquired through accounts payable	<u>\$ 272,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 272,379</u>
Intangible asset acquired through intergovernmental transfer	<u>\$ 21,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,881</u>

The Notes to Financial Statements are an integral part of this statement.

TOWN OF HERNDON, VIRGINIA

Exhibit A-11

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2021
(With Comparative Amounts for 2020)

	<div> <div>Pension Trust Fund</div> <div>Police Supplemental Retirement Pension Trust Fund</div> </div>	
	2021	2020
Mutual funds	\$ 3,930,531	\$ 4,127,353
Total assets	3,930,531	4,127,353
NET POSITION		
Restricted:		
Held in trust for pension benefits	\$ 3,930,531	\$ 4,127,353

TOWN OF HERNDON, VIRGINIA

Exhibit A-12

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
Year Ended June 30, 2021
(With Comparative Amounts for 2020)

	Pension Trust Fund Police Supplemental Retirement Pension Trust Fund	
	2021	2020
Additions:		
Employer contributions	\$ 204,518	\$ 205,851
Investment income:		
Net increase in the fair value of investments	1,115,781	172,837
Total additions, net	1,320,299	378,688
Deductions:		
Benefit payments	1,517,121	400,838
Change in net position	(196,822)	(22,150)
Net position, July 1	4,127,353	4,149,503
Net position, June 30	\$ 3,930,531	\$ 4,127,353

The Notes to Financial Statements are an integral part of this statement.

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TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Herndon, Virginia (the "town"), located in the County of Fairfax, Virginia, was incorporated in 1879 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The town is governed under the Town Manager-Council form of government. The town engages in a comprehensive range of municipal services, including general government administration; public safety and administration of justice; refuse collection; street and sidewalk maintenance; street lighting; zoning enforcement; education, health, welfare, and human service programs; planning, community development and recreation; and cultural and historic activities. Other municipal services including public education; technical and special education services; health and social services; mental health assistance; fire and ambulance services; judicial services; correctional facilities; and additional recreation services and facilities are provided by the County of Fairfax, Virginia. As required by GAAP, these financial statements present the town's financial position. The town does not have any component units, entities for which the town is considered to be financially accountable or blended component units, legally separate entities which are in substance part of the town's operations.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the town. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the government and business-type activities of the town. *Governmental activities* generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. *Business-type activities* are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the town and for each function of the town's governmental activities. *Direct expenses* are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. *Program revenues* include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as *general revenues*.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements:

The fund financial statements provide information about the town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, of which each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions.

Operating expenses include cost of services, administrative expenses, and depreciation and amortization on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Fiduciary funds account for assets held by the town in a trustee capacity or as agent or custodian for individuals and utilize the accrual basis of accounting. These funds include the Police Supplemental Retirement Pension Trust fund which is reported using the economic resources measurement focus.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Governmental Fund Financial Statements: Governmental funds are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The town considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end, except property taxes which are recognized as revenue if they have been collected within the town's availability period, which is 45 days. All taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The town reports the following major governmental funds:

The *General Fund* is the general operating fund of the town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for all financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or the Information Systems Improvement Fund.

The town reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for services to the general public, which are financed primarily by charges to users of those services.

The *Golf Course Fund* accounts for the operation and maintenance of the golf course.

The *Chestnut Grove Cemetery Fund* accounts for operations of the cemetery.

The *Downtown Parking Fund* accounts for the operation and maintenance of the town's Downtown Public Shared Parking Program. This fund was closed to the General Fund in 2021.

Additionally, the town reports the *Police Supplemental Retirement Trust Fund*. The purpose of this fund is to provide retirement benefits in addition to the benefits provided by the Virginia Retirement System and Social Security. The town has contracted with various financial institutions and insurance carriers to provide fiscal agent services including the accounting, investment, and disbursement services related to this fund.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The *Code of Virginia* makes a clear distinction between budgets and appropriations. Budgets are for informational and fiscal planning purposes, whereas appropriations are authorizations to incur expenditures.

Prior to April 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. Annual budgets for the General Fund, and the enterprise funds are adopted at the department level. Capital projects are budgeted on a project basis. The operating and capital budgets include proposed expenditures and the means of financing them. A brief synopsis of the proposed budget is published at least once in a newspaper with general circulation within the town. Additionally, notice is given of one or more public hearings at least ten days prior to the public hearing. The public hearing provides any citizen the opportunity to comment on the budget.

Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution. This resolution appropriates all budgeted amounts. The Appropriations Resolution places legal restrictions on expenditures for each department or category level.

Department heads and directors are authorized to transfer/reallocate/redistribute any amount, up to \$100,000, of the approved operations, maintenance and capital funding between approved expenditure accounts within their respective departments in the General Fund and Enterprise Funds only, except for salary and benefit accounts. Proposed transfers from salary or benefits accounts of any amount must be submitted to the town manager for review and approval. Requirements in excess of \$100,000 must be submitted to the town manager for review, and to Town Council for approval. The town manager is authorized to approve the transfer/reallocation/redistribution of General Fund, Water & Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, Downtown Parking Enterprise Fund, and the Capital Projects Funds monies within a department or between departments in the same fund. Actions may be within or between the personnel, operations and maintenance and capital outlays/projects accounts. The total amount of each approval shall not exceed \$100,000 and multiple transfers to the same account cannot exceed a total of \$100,000. Requirements in excess of \$100,000 must be submitted by resolution to the Town Council for approval. The dollar limitation effectively lowers the legal level of budgetary control to the department level. All increases or decreases to the approved budget must be approved by the Town Council before being made. During the year, the Town Council approves additional appropriations, as needed, in the form of Budget Amendments. During the year ended June 30, 2021, budget revisions to the general fund were made, which resulted in a \$5,635,009 increase in budgeted expenditures.

All budgets are adopted on a basis consistent with GAAP. Appropriations lapse June 30 unless specifically encumbered, committed, or assigned. At year-end, the Town Council meets to encumber these appropriations for the next fiscal year.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting (Continued)

All budget data presented in the accompanying financial statements is the revised budget as of June 30 and includes the budget revisions disclosed previously. Unfavorable variances reported herein should not be interpreted to represent violations of laws as the legal level of fiscal control is based on total appropriated expenditures by fund.

E. Deposits and Investments

Cash resources of the governmental and proprietary funds are combined to form a pool of deposits and investments to maximize interest earnings potential. The pool consists primarily of certificates of deposit, repurchase agreements, government securities, and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool is reported at the pool's share price in accordance with GASB Statement 79.

For purposes of the Statement of Cash Flows, the town's enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Fair Value Measurements

The government categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Level 2 investments are valued using a matrix pricing technique, which is based on the investments' benchmark quoted prices.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are shown as a nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Water and sewer receivables are shown net of an allowance for uncollectibles and consist of billed and unbilled utility receivables. Unbilled receivables are an estimate of utility services provided but not billed by year end.

Allowances for uncollectible accounts receivable (real estate taxes and utility billings) are calculated using historical collection data, specific account analysis, and management's judgment.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

G. Receivables and Payables (Continued)

The town levies real estate taxes, as of January 1, on all real property in the town on a calendar year basis at a rate enacted by Town Council. The levies are based on the assessed value of property as determined by the Director of Real Estate Assessments of Fairfax County. All property is assessed at 100 percent of appraised value and reassessed each year as of January 1. Real estate taxes are collected in equal installments due July 28 and December 5. Lien dates are 190 days after the due date. The tax rate during 2021 per \$100 of assessed value was \$0.265. No discounts are allowed. A late penalty of ten percent is charged after July 28 and December 5. Interest of ten percent on tax and penalty is charged from August 1 for the first half real estate taxes and from January 1 for second half real estate taxes.

The town reports real estate taxes (net of allowances) assessed for calendar year 2021 as receivables, net of payments received in advance of the due date, and deferred tax revenue because the town has an enforceable legal claim to these resources at June 30, 2021; however, these resources will not be available to the town until fiscal year 2022.

The town did not assess personal property taxes during fiscal year 2021.

The portion of taxes receivable that is not collected within 45 days after June 30 is shown as unavailable revenue.

H. Inventories

Inventories in the proprietary funds are recorded at the lower of cost (first-in, first-out) or net realizable value. These inventories consist primarily of parts held for consumption.

Inventory in the General Fund consists of expendable supplies held for consumption and is recorded at cost (determined on a first-in, first-out basis). The cost is recorded as an expenditure when consumed.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

J. Restricted Cash

In accordance with the agreements resulting in the issuance of debt, the General Fund, Capital Projects Fund, and the Water and Sewer Fund have a portion of their cash balance restricted and shown as "Cash with fiscal agent" or restricted cash on the Governmental Funds' Balance Sheet and the Statement of Net Position. This restriction on cash balances is due to the intended use, as prescribed in the applicable bond covenants. Amounts also consist of funds to be used for future capital projects and amounts accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

- Contributions subsequent to the measurement date for pensions and OPEB; this will be applied to the net pension liability and net OPEB liability in the next fiscal year.
- One item occurs only under the modified accrual basis of accounting; this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 45 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Another item represents taxes billed and, in some cases, collected before the period they are eligible for use.
- Differences between expected and actual experience for economic/demographic factors and changes of assumptions in the measurement of the total pension and OPEB liability. These differences will be recognized in pension or OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportionate share that will be recognized in the OPEB expense over the average expected remaining service lives of all employees provided with benefits. This may be reported as a deferred outflow or inflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets and infrastructure are defined by the town as assets with an initial, individual cost of more than \$5,000 and \$20,000, respectively, and an estimated useful life in excess of two years. The town has included all infrastructure assets of the town, including assets acquired before June 30, 1980.

The town's intangible assets consist of land easements and software, which were previously recorded and classified as machinery and equipment. Land easements have indefinite useful lives and thus are not subject to amortization.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Infrastructure	20-50 years
Buildings	10-50 years
Improvements other than buildings	5-50 years
Machinery and equipment	2-20 years
Furniture and fixtures	10-20 years
Intangibles and purchased capacity	5-40 years

Maintenance, repairs, and minor renewals are charged to operations when incurred. Expenses which materially increase values, change capacities, or extend useful lives are capitalized.

M. Land Held for Sale and Comstock Agreement

In September, 2015 the Town Council completed the purchase of 1.67 acres of land from a private owner with a price of \$3,469,000. This land, along with other parcels, was transferred to Comstock Herndon Venture, LC on December 15, 2020. In 2021, The Herndon Town Council approved a resolution that amended the comprehensive agreement with Comstock, to advance the project on November 17, 2020. This amendment allowed continued interim use by the town of the property for the existing ArtSpace and provides for public shared parking. Also, it established a date by which Comstock must have the project under construction which is December 31, 2021. This signed amendment to the Comstock Agreement allowed for the Town of Herndon to close on the transfer of land to Comstock as of December 15, 2020. The town has an appropriation of \$3.6 million as part of this agreement for the project as well as several contingences for cost overruns that cannot be estimated. In return, the town will be receiving public parking, an arts center shell, public improvements, temporary parking, arts center and environmental upgrades that accumulate to about \$16.6 million in value.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

Vacation can be accumulated up to 37.5 days for all employees except department heads who can accumulate 40 days. Unused accumulated vacation is paid upon termination, death or retirement. Employees may utilize their sick leave benefit to the extent sickness causes employees to be absent. Upon retirement under the VRS, employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$10,000. Upon termination of employment except for dismissals, non-probationary full-time employees are considered 25% vested in sick leave benefits and are paid the vested portion up to \$2,500. A prorated amount shall be paid to non-probationary part-time employees. The vested amount is accrued in compensated absences.

Compensated absences are accrued when incurred in the entity-wide and proprietary funds statements and reported as a fund liability. The General Fund is responsible for paying the liability for compensated absences for General Government employees and has been used in prior years to liquidate the Governmental Funds' liability.

Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

O. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums, discounts, and deferred losses on refundings are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

P. Fund Balance

In the fund financial statements, governmental funds report classifications of fund balance as follows:

- **Nonspendable** – amounts that are not in a spendable form or are required to be maintained intact (such as prepaid items, inventory, and advances between funds).
- **Restricted** – amounts constrained to specific purposes by their providers (such as grantors, creditors, or laws and regulations of other governments), or by law through constitutional provisions or enabling legislation.
- **Committed** – amounts constrained to specific purposes by the Town Council. To be reported as committed, amounts cannot be used for any other purpose unless the Town Council takes the action to remove or change the constraint.
- **Assigned** – amounts constrained by the town's intent but are neither restricted nor committed. Encumbrances outstanding at year-end are designated by management, as allowed by the town's financial policies. Re-appropriations are then formally adopted by the Town Council in the following fiscal year through a budget amendment. Amounts designated for subsequent years' expenditures are adopted by a resolution of the Town Council which is retroactive to fiscal year-end. The action normally takes place during the month of July, which is after fiscal year-end. These amounts are also formally re-appropriated by the Town Council in the following fiscal year through a budget amendment.
- **Unassigned** – residual balance of the General Fund that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Town Council, as the highest level of authority within the town, establishes the commitment of fund balance to purposes through the approval of the annual budget plan by resolution, in conjunction with the resolutions associated with the establishment of fee and tax rates, and acceptance or appropriation of funds. All subsequent changes to the budget plan to add, reduce, or redirect resources to other purposes are also accomplished by Council resolution. As a result, all unrestricted amounts directed toward a purpose are shown as committed. Balances shown as assigned in the General Fund represent encumbrances which would otherwise be unassigned.

The town considers restricted balances to be expended first in cases where both restricted and unrestricted amounts are available. When utilizing unrestricted balances, committed balances are applied first, followed by assigned then unassigned balances.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Fund Balance (Continued)

Town council established a Revenue Stabilization Fund in 2012 within the assigned portion of the General Fund Balance. At the close of each audited fiscal year, after certifying that the Unassigned Fund Balance is in compliance with these policies, the Revenue Stabilization Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. Balances in the Revenue Stabilization Fund will be allowed to accumulate until they reach an amount equal to 5.0 percent of General Fund Operating Revenues. Transfers to the Revenue Stabilization Fund may also be made as part of the adopted operating budget.

Withdrawals from the Revenue Stabilization Fund can only be considered if there is an unexpected General Fund recurring revenue decline of at least three percent below the original budget projections for the current fiscal year.

No more than half of the Revenue Stabilization Fund can be withdrawn in any one fiscal year except in the event that using no more than half of the balance would result in Unassigned Fund Balance falling below the 20 percent threshold noted herein. In such an instance, the withdrawal shall be the lesser of the amount needed to maintain the 20 percent Unassigned Fund Balance policy level or the remaining balance in the Revenue Stabilization Fund.

R. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2021 include \$793,476 in the general fund and \$3,204,253 in the general capital project fund.

S. Pensions and Other Post-employment Benefits (OPEB)

For purposes of measuring all financial elements related to pensions and OPEB, information about the fiduciary net position of the town's Plans and the additions to or deductions from the town's Plans net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 1. Summary of Significant Accounting Policies (Continued)

T. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

The town maintains a cash and investment pool that is available for use by all funds. Investment income is allocated to certain designated funds based on the percentage of the fund's cash and investments at month-end to the total pool. The General Fund, Perpetual Care Fund and Capital Projects Fund have specific designated investments as well as having equity in pooled cash and investments.

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and, depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Custodial Credit Risk

This is the risk that in the event of a bank failure, the town's deposits may not be returned to it. The town's investment policy requires all deposits to be insured under FDIC or comply with the Act. At year end, none of the town's deposits were exposed to custodial credit risk.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

The State Treasurer's Local Government Investment Pool (LGIP) is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share and is reported based on guidance in GASB Statement 79.

State statutes and the town's policy authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, "prime-quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, open-end investment funds (mutual funds), certificates of deposit, the Virginia State Non-Arbitrage Program (SNAP); and the LGIP. The town has investments in the LGIP, and the maturity of the LGIP is less than one year and is rated AAAm by Standard & Poor's.

The Town has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP (a 2a-7 like pool), which is an open-ended management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financing.

The town's investment policy establishes the maximum percentages of the portfolio permitted in each of the following instruments:

U. S. Treasury Obligations	100% maximum
U. S. Government Agency Securities and Instruments of Government Sponsored Corporations	100% maximum
Open-End Investment Funds (Mutual Funds)	100% maximum
Bankers' Acceptances	50% maximum
Repurchase Agreements	25% maximum
Certificate of Deposits – Virginia Qualified Commercial Banks, Savings and Loan Associations	75% maximum
Commercial Paper	35% maximum
Local Government Investment Pool	100% maximum
Virginia State Non-Arbitrage Program	100% maximum

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Deposits and Investments (Continued)

Investment Policy: (Continued)

Further, of the total portfolio, no more than 25% can be invested with any one institution for Bankers' Acceptances, 10% with any one institution for Repurchase Agreements, 33% with any one institution for Certificates of Deposit, and no more than 5% with any one institution for Commercial Paper.

Interest Rate Risk:

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates, the town's policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase, except for investments of capital projects, long-term reserve and other escrow funds that will be timed to meet contractors' payments, debt service or other anticipated financial obligations. In such cases, the town may invest reserve and escrow funds in securities maturing up to ten years from the date of purchase.

As of June 30, 2021, the town's investments consisted of the following:

Type	Value	S & P Credit Rating	Weighted Average Maturity*
LGIP	\$ 35,338,726	AAAm	0.29
SNAP	4,780,705	AAAm	0.23
Federal Agency Bonds and Notes	3,732,261	AA+	1.30
Mutual Funds	3,930,531	Various	N/A
Total investments	<u>\$ 47,782,223</u>		

* - Average Maturity in Years

Concentration of Credit Risk:

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2021, the portion of the town's portfolio that exceed 5% of the total portfolio are as follows:

LGIP	74%
SNAP	10%
Federal Agency Bonds and Notes	8%
Mutual Funds	8%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Deposits and Investments (Continued)

Fair Value:

The town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The town has the following recurring fair value measurements as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Mutual funds – Police Retirement Plan:				
DFA Emerging Markets Core Equity I	\$ 33,652	\$ -	\$ -	\$ 33,652
DFA International Core Equity I	59,287	-	-	59,287
DFA US Core Equity 2 I	114,199	-	-	114,199
Federated Capital Preservation	35,941	-	-	35,941
Vanguard Total Bond Market Index Adm	1,373	-	-	1,373
Vanguard Target Retirement 2055 Inv	74,481	-	-	74,481
Met Life Stable Value Fund	8,446	-	-	8,446
Vanguard Target Retirement 2050 Inv	159,162	-	-	159,162
Vanguard Target Retirement 2040 Inv	1,054,752	-	-	1,054,752
Vanguard REIT Index Adm	31,131	-	-	31,131
Vanguard Growth Index Adm	230,053	-	-	230,053
Vanguard Mid Cap Index Adm	8,070	-	-	8,070
Vanguard 500 Index Admiral	166,651	-	-	166,651
Vanguard Target Retirement 2030 Inv	344,115	-	-	344,115
Vanguard Target Retirement Income Inv	230	-	-	230
Vanguard Target Retirement 2045 Inv	311,034	-	-	311,034
Vanguard Target Retirement 2035 Inv	787,459	-	-	787,459
Vanguard Target Retirement 2060 Inv	7,309	-	-	7,309
Vanguard Target Retirement 2025 Inv	491,317	-	-	491,317
Vanguard Target Retirement 2020	9,390	-	-	9,390
Vanguard Target Retirement 2015	2,479	-	-	2,479
Debt securities:				
Federal Agency Bonds and Notes	-	3,732,261	-	3,732,261
	<u>\$ 3,930,531</u>	<u>\$ 3,732,261</u>	<u>\$ -</u>	<u>\$ 7,662,792</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 2. Deposits and Investments (Continued)

Fair Value: (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Federal agency notes and bonds are classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Deposits and investments are reflected in the financial statements as follows:

Deposits and investments:	
Deposits	\$ 20,976,789
Investments	43,851,692
Investments held in trust	3,930,531
	<u>\$ 68,759,012</u>

Statement of Net Position:	
Cash and investments	\$ 58,214,441
Cash and investments with fiscal agent	4,436,190
Cash and investments – restricted	2,177,850
Fiduciary fund cash and investments	3,930,531
	<u>\$ 68,759,012</u>

Cash with fiscal agent and other restricted cash and investments:

Restricted cash and investments consist of unspent bond proceeds related to bond issuances as well as cash restricted for future capital projects and funds accumulated for use in the Chestnut Grove Cemetery Perpetual Care Fund.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 3. Receivables and Due from Other Governments

Receivables are as follows:

	Governmental Activities	Business - Type Activities	Total
Receivables:			
Property tax	\$ 12,701,362	\$ -	\$ 12,701,362
Meal tax	497,788	-	497,788
Transient occupancy tax	110,227	-	110,227
Trade and other accounts	385,120	1,755,406	2,140,526
Gross receivables	13,694,497	1,755,406	15,449,903
Less: allowance for uncollectible	(6,569)	(82,647)	(89,216)
Receivables, net	\$ <u>13,687,928</u>	\$ <u>1,672,759</u>	\$ <u>15,360,687</u>
Due from other governments:			
Federal government	\$ 1,670,224	\$ -	\$ 1,670,224
Commonwealth of Virginia	1,038,622	-	1,038,622
Counties	391,222	-	391,222
Total due from other governments	\$ <u>3,100,068</u>	\$ <u>-</u>	\$ <u>3,100,068</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 4. Interfund Receivables, Payables, and Transfers

A summary of interfund transfer activity is presented as follows:

	Other Governmental Funds	Chestnut Grove Cemetery Fund	Downtown Parking Fund	Total Transferred In
Transferred out:				
Primary government:				
Governmental activities:				
General Fund	\$ 13,600	\$ -	\$ 1,734,998	\$ 1,748,598
Other nonmajor governmental funds	-	67,858	-	67,858
Business-type activities:				
Chestnut Grove Cemetery Fund	18,816	-	-	18,816
Downtown Parking Fund	109,000	-	-	109,000
Total Transferred Out	<u>\$ 141,416</u>	<u>\$ 67,858</u>	<u>\$ 1,734,998</u>	<u>\$ 1,944,272</u>

The transfers from the Other nonmajor governmental funds are for capital project expenditures.

The transfer from the Chestnut Grove Cemetery Fund to Other nonmajor governmental funds is for cemetery site sales.

The transfer from the Downtown Parking Fund to the General Fund is to close the Downtown Parking Fund.

Note 5. Note Receivable

Note receivable in the General fund consists of the following:

4.515% note, due in annual installments of \$11,858, plus interest through October 2023	<u>\$ 35,573</u>
Less current maturities	<u>11,858</u>
Long-term portion, net	<u><u>\$ 23,715</u></u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Capital Assets

Capital asset activity for the year ended June 30 is as follows:

Governmental Activities:	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 24,689,717	\$ -	\$ (1,728,848)	\$ 22,960,869
Easements	3,220,766	618,490	-	3,839,256
Construction in progress	2,849,377	6,850,140	-	9,699,517
Total capital assets not depreciated	30,759,860	7,468,630	(1,728,848)	36,499,642
Capital assets, depreciated:				
Infrastructure	82,562,809	-	-	82,562,809
Buildings	42,161,526	14,970	-	42,176,496
Improvements other than buildings	17,171,228	43,862	-	17,215,090
Machinery and equipment	11,709,973	99,928	(365,799)	11,444,102
Intangibles	1,136,517	-	-	1,136,517
Furniture and fixtures	1,135,003	-	-	1,135,003
Total capital assets	155,877,056	158,760	(365,799)	155,670,017
Less accumulated depreciation:				
Infrastructure	(66,390,743)	(1,284,741)	-	(67,675,484)
Buildings	(21,068,402)	(1,142,267)	-	(22,210,669)
Improvements other than buildings	(9,846,419)	(598,378)	-	(10,444,797)
Machinery and equipment	(6,910,481)	(707,573)	360,147	(7,257,907)
Intangibles	(1,109,156)	(19,360)	-	(1,128,516)
Furniture and fixtures	(477,277)	(48,804)	-	(526,081)
Total accumulated depreciation	(105,802,478)	(3,801,123)	360,147	(109,243,454)
Total capital assets, depreciated, net	50,074,578	(3,642,363)	(5,652)	46,426,563
Governmental activities capital assets, net	\$ 80,834,438	\$ 3,826,267	\$ (1,734,500)	\$ 82,926,205

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Capital Assets (Continued)

Business-type Activities:	Beginning Balance	Increases/ Transfers	Decreases/ Transfers	Ending Balance
Capital asset, not depreciated:				
Land	\$ 3,565,110	\$ 37,500	\$ (1,062,536)	\$ 2,540,074
Construction in progress	1,499,433	18,415	(1,198,041)	319,807
Total capital assets not depreciated	5,064,543	55,915	(2,260,577)	2,859,881
Capital assets, depreciated:				
Buildings	3,551,964	-	-	3,551,964
Improvements other than buildings	35,372,822	741,810	-	36,114,632
Machinery and equipment	3,678,393	357,190	-	4,035,583
Furniture and fixtures	194,919	-	-	194,919
Intangibles and purchased capacity	16,166,154	-	-	16,166,154
Total capital assets	58,964,252	1,099,000	-	60,063,252
Less accumulated depreciation:				
Buildings	(2,143,097)	(93,918)	-	(2,237,015)
Improvements other than buildings	(25,111,309)	(1,205,864)	460,045	(25,857,128)
Machinery and equipment	(2,110,328)	(456,297)	-	(2,566,625)
Furniture and fixtures	(194,919)	-	-	(194,919)
Intangibles and purchased capacity	(6,547,754)	(206,478)	-	(6,754,232)
Total accumulated depreciation	(36,107,407)	(1,962,557)	460,045	(37,609,919)
Total capital assets, depreciated, net	22,856,845	(863,557)	460,045	22,453,333
Business-type activities capital assets, net	\$ 27,921,388	\$ (807,642)	\$ (1,800,532)	\$ 25,313,214

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 6. Capital Assets (Continued)

Primary Government

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Legislative	\$ 38,772
Administration	157,323
Parks and Recreation	580,773
Finance	38,780
Community Development	41,445
Police	493,533
Public Works	2,256,266
Town Attorney	150,370
	<hr/>
	\$ 3,757,262
Business-type activities:	
Water and Sewer	\$ 1,601,493
Golf Course	190,551
Chestnut Grove Cemetery	123,400
	<hr/>
	\$ 1,915,444

This schedule of depreciation expense represents only current year expense; the total increase column on the preceding pages includes current year expense and the transfer of accumulated depreciation between funds causing a variance.

The town purchased water capacity rights from Fairfax Water in 1994 and 1999 totaling \$9,772,920. Purchased water capacity is recognized as an asset and is amortized in the water and sewer fund over the life of the agreements.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 7. Unavailable and Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property tax receivable	\$ 116,133	\$ -
Advance billing of 2020-2021 taxes	12,585,228	12,585,228
Intergovernmental	-	101,390
ARPA funding	-	12,761,973
Unavailable - other	455,304	-
	<u>\$ 13,156,665</u>	<u>\$ 25,448,591</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 8. Long-Term Debt

Primary Government

The following is a summary of the long-term debt activity for the year ended June 30:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	\$ 10,793,670	\$ 6,052,915	\$ (5,877,930)	\$ 10,968,655	\$ 973,254
Plus deferred amount for bond premiums	154,294	29,640	(46,066)	137,868	-
	<u>10,947,964</u>	<u>6,082,555</u>	<u>(5,923,996)</u>	<u>11,106,523</u>	<u>973,254</u>
Compensated absences	<u>2,382,436</u>	<u>33,249</u>	<u>(6,639)</u>	<u>2,409,046</u>	<u>343,072</u>
	<u>\$ 13,330,400</u>	<u>\$ 6,115,804</u>	<u>\$ (5,930,635)</u>	<u>\$ 13,515,569</u>	<u>\$ 1,316,326</u>
Business-type Activities:					
General obligation bonds	\$ 8,775,830	\$ 1,252,085	\$ (2,367,570)	\$ 7,660,345	\$ 168,246
Fairfax Water	3,419,303	21,881	(262,569)	3,178,615	284,450
Plus deferred amount for bond premiums	42,160	-	(42,160)	-	-
	<u>12,237,293</u>	<u>1,273,966</u>	<u>(2,672,299)</u>	<u>10,838,960</u>	<u>452,696</u>
Compensated absences	<u>327,563</u>	<u>117,621</u>	<u>(180,583)</u>	<u>264,601</u>	<u>39,159</u>
	<u>\$ 12,564,856</u>	<u>\$ 1,391,587</u>	<u>\$ (2,852,882)</u>	<u>\$ 11,103,561</u>	<u>\$ 491,855</u>

Increases in governmental activities and decreases in business-type activities above include bonds and premiums transferred from the Downtown Parking Fund to governmental activities in the amount of \$994,640.

For the governmental activities, compensated absences, pension liabilities, and OPEB liabilities are generally liquidated by the general fund.

The town is subject to a legal debt margin based on the Constitution of Virginia. Based upon the Fairfax County valuation, the direct debt limit is \$479,413,249. With total exempt debt of \$11,076,883 the town has a legal debt margin of \$468,306,724.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 8. Long-Term Debt (Continued)

Primary Government (Continued)

Annual requirements to amortize long-term debt, the related interest and other obligations are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 973,254	\$ 261,301	\$ 452,696	\$ 253,469	\$ 1,425,950	\$ 514,770
2023	992,839	237,896	436,230	246,948	1,429,069	484,844
2024	1,019,919	213,915	441,650	240,172	1,461,569	454,087
2025	926,507	195,840	562,062	233,142	1,488,569	428,982
2026	917,785	178,461	595,784	224,417	1,513,569	402,877
2027-2031	3,743,351	624,058	2,531,710	978,562	6,275,061	1,602,620
2032-2036	1,430,000	291,113	1,585,885	770,425	3,015,885	1,061,538
2037-2041	965,000	63,538	1,482,943	597,613	2,447,943	661,150
2042-2046	-	-	1,425,000	382,913	1,425,000	382,913
2047-2051	-	-	1,325,000	117,950	1,325,000	117,950
	<u>\$ 10,968,655</u>	<u>\$ 2,066,122</u>	<u>\$ 10,838,960</u>	<u>\$ 4,045,611</u>	<u>\$ 21,807,615</u>	<u>\$ 6,111,731</u>

Details of Long-term Indebtedness

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General Obligation Public Improvement and Refunding	2.15	2012	2023	\$ 4,999,000	\$ 1,796,000	\$ -
General Obligation Public Improvement Bonds	2.00-5.00	2018	2050	11,135,000	4,485,000	6,485,000
General Obligation Public Refunding Bonds	1.04	2020	2033	5,229,000	4,012,098	1,066,901
General Obligation Public Refunding Bonds	1.16	2020	2026	1,111,000	675,557	108,444
Fairfax Water 1994 Agreement	0.00	1994	2029	5,298,720	-	1,233,017
Fairfax Water 1999 Agreement	0.00	1999	2039	4,474,200	-	1,945,598
					<u>\$ 10,968,655</u>	<u>\$ 10,838,960</u>

In July 2020, the town issued a General Obligation Refunding Bond totaling \$6,340,000 which was used to refund \$6,096,000 of outstanding series 2010, 2014, and 2018 bonds. A portion of proceeds were placed in trust with an escrow agent to fund all future debt service payments for the 2010 bonds and a portion was used to pay off bond issuances from 2014 and 2018. As a result, the refunded bonds are considered to be defeased, and the liability has been removed from the town's long-term debt. This refunding was undertaken to reduce total debt service payments by \$60,795, resulting in an economic gain of \$227,269.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Herndon, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>141</u>
Inactive members:	
Vested inactive members	55
Non-vested inactive members	71
Active members active elsewhere in VRS	<u>34</u>
Total inactive members	160
Active members	<u>236</u>
Total covered employees	<u><u>537</u></u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The political subdivision's contractually required contribution rate for the year ended June 30, 2021 was 8.37% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$1,357,946 and \$1,124,256 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

Actuarial Assumptions

The total pension liability for General Employees and Public Safety Employees with Hazardous Duty benefits in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation*

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20% (Largest 10) or 15% (All Others), and decreased discount rate from 7.00% to 6.75%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, no changes to salary scale, and decreased discount rate from 7.00% to 6.75%.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	4.65 %	1.58 %
Fixed Income	15.00	0.46	0.07
Credit Strategies	14.00	5.38	0.75
Real Assets	14.00	5.01	0.70
Private Equity	14.00	8.34	1.17
MAPS – Multi-Asset Public Strategies	6.00	3.04	0.18
PIP – Private Investment Partnership	3.00	6.49	0.19
Total	100.00 %		4.64 %
	Inflation		2.50 %
			7.14 %

*Expected arithmetic nominal return

*The above allocation provides for a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever is greater. From July 1, 2020 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2019	\$ 86,142,125	\$ 82,305,752	\$ 3,836,373
Changes for the year:			
Service cost	1,915,044	-	1,915,044
Interest	5,681,425	-	5,681,425
Changes of assumptions	-	-	-
Differences between expected and actual experience	1,448,447	-	1,448,447
Contributions – employer	-	1,126,210	(1,126,210)
Contributions – employee	-	859,817	(859,817)
Net investment income	-	1,554,123	(1,554,123)
Benefit payments, including refunds of employee contributions	(3,945,737)	(3,945,737)	-
Administrative expenses	-	(53,891)	53,891
Other changes	-	(1,845)	1,845
Net changes	5,099,179	(461,323)	5,560,502
Balances at June 30, 2020	\$ 91,241,304	\$ 81,844,429	\$ 9,396,875

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 6.75%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability (asset)	<u>\$ 20,936,880</u>	<u>\$ 9,396,875</u>	<u>\$ (230,971)</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2021, the political subdivision recognized pension expense of \$2,358,589. At June 30, 2021, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,041,580	\$ 296,009
Changes of assumptions	1,170,922	2,597
Net difference between projected and actual earnings on pension plan investments	2,459,209	-
Employer contributions subsequent to the measurement date	<u>1,357,946</u>	<u>-</u>
Total	<u>\$ 6,029,657</u>	<u>\$ 298,606</u>

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 9. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$1,357,946 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Increase (Reduction) to Pension Expense
2022	\$ 946,084
2023	1,577,851
2024	1,062,472
2025	786,698
2026	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2020 Annual Financial Report . A copy of the 2020 VRS annual report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2021, approximately \$198,557 was payable to the Virginia Retirement System for the legally required contributions related to June 2021 payroll.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Contribution Plan – Police Retirement

Plan Description

The Town of Herndon Police Supplemental Retirement Plan (Plan) is a defined contribution plan established by the town to provide retirement benefits, supplemental to VRS, for town police officers. The Plan is administered by the town. The town contributes an amount equal to four percent of the officer's wages; the officers make no contribution. The Plan was established by Town Council and any amendments to the plan must be approved by the Council. The Plan does not issue a stand-alone financial report.

The town's police officers are enrolled in the Law Enforcement Officers retirement program within the VRS. The police officers are provided benefits equivalent to those provided for State police officers as set out in Section 51.1-138 of the *Code of Virginia*.

There were 113 participants in the Plan at June 30, 2021. The Plan has eight distribution options available to the officers upon retirement, separation from service, death, disability, or termination of the Plan. Town contributions recorded as pension expenditure totaled \$204,518 for the fiscal year ended June 30, 2021. Data concerning the value of vested and nonvested benefits as of June 30, 2021 is as follows:

Vested benefits	\$ 3,702,963
Nonvested benefits	<u>227,568</u>
	\$ <u>3,930,531</u>

Vesting

Contributions by the town will vest to the benefit of the officer for which they are made according to the following schedule:

Years of Service as Herndon Police Officer	Vested Percentage
Fewer than 3 years	None
3 years but fewer than 4	20
4 years but fewer than 5	40
5 years but fewer than 6	60
6 years but fewer than 7	80
7 years or more	100

Significant Accounting Policies

Basis of Accounting: The Plan financial statements are prepared using the accrual basis of accounting.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 10. Defined Contribution Plan – Police Retirement (Continued)

Significant Accounting Policies (Continued)

Reporting: The Plan is accounted for as a trust fund of the town.

Investment Valuation and Income Recognition: Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted market price of the mutual fund, which represents the net asset value of the shares held by the Plan.

Payment of Benefits: Benefits are recorded when paid.

In addition, State statutes authorize the town to purchase other investments for pension funds that meet the standard of judgment and care set forth in the *Code of Virginia*. These additional investments may include obligations of other states, political subdivisions thereof, or mutual funds.

Concentrations

At June 30, 2021, Plan assets were comprised of mutual funds investing in stocks, bonds, guaranteed investment contracts, and U.S. government securities. Single investments representing more than 5% of the Plan's net assets as of June 30, 2021 are separately identified in the fair value measurements table in Note 2.

Note 11. Other Post-Employment Benefits – Local Plan

Plan Description

Other postemployment benefits (OPEB) provided by the town include a single-employer, defined benefit retiree health insurance premium plan.

A retiree, eligible for the plan, is defined as a full-time employee who is participating in the employer's medical and dental program, and may elect coverage if the employee is (a) eligible for VRS retirement (i.e. General Employees: earlier of age 50 and 10 years of service or age 55 and 5 years of service; Hazardous Duty Employees: age 50 and 7 years of service, or (b) disabled employees who qualify for VRS disability (no age or service requirement in VRS). The plan was established by Town Council and any amendments to the plan must be approved by the Council. The plan does not issue stand-alone financial reports.

Benefits Provided

Benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town's insurance plans. Benefits end at the earlier of the retiree's death or attainment of age 65.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Post-Employment Benefits Liability– Local Plan (Continued)

Employees Covered by Benefit Terms

As of the July 1, 2020 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	<u>Number</u>
Inactive employees or beneficiaries:	
Currently receiving benefits	70
Entitled to but not yet receiving benefits	<u>-</u>
Total inactive employees	70
Active plan members	<u>215</u>
	<u><u>285</u></u>

Total OPEB Liability

The town's total OPEB liability of \$4,230,471 was measured as of July 1, 2020 and was determined based on an actuarial valuation performed as of July 1, 2020.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	2.45%
Salary increases, including inflation	2.5%, plus productivity component of 1.25%
Healthcare cost trend rates	3.33-5.00%
Retirees' share of benefit-related costs	Same as Health Care Trend

Mortality rates: RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2020

The actuarial assumptions used in the July 1, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2019 through June 30, 2020.

Changes in the Total OPEB Liability

Balance at June 30, 2020	\$ 5,022,402
Changes for the year:	
Service cost	235,451
Interest	161,075
LEO Employees	-
Differences between expected and actual experience	(1,201,366)
Assumption or other input changes	238,046
Benefit payments	(225,137)
Other changes	-
Net changes	(791,931)
Balance at June 30, 2021	\$ 4,230,471

Benefit payments above represent amounts paid by the town sufficient to satisfy benefit payment requirements to participants.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current discount rate:

	1.00% Decrease (1.45%)	Current Discount Rate (2.45%)	1.00% Increase (3.45%)
Total OPEB liability	\$ 4,609,724	\$ 4,230,471	\$ 3,886,785

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (2.33%) or one percentage point higher (4.33%) than the current healthcare cost trend rates:

	1.00% Decrease (2.33%)	Current Healthcare Cost Trend Rates (3.33%)	1.00% Increase (4.33%)
Total OPEB liability	\$ 3,822,973	\$ 4,230,471	\$ 4,709,820

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 11. Other Postemployment Benefits Liability – Local Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the town recognized OPEB expense of \$458,125. At June 30, 2021, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 503,753	\$ 1,001,033
Change in assumptions	312,833	29,342
Employer contributions subsequent to the measurement date	69,109	-
Total	<u>\$ 885,695</u>	<u>\$ 1,030,375</u>

The \$69,109 reported as deferred outflows of resources related to OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB Liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2022	\$ 50,099
2023	50,099
2024	(140,554)
2025	(173,433)
2026	-
Thereafter	-

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the town also participates in a cost-sharing multiple employer other postemployment benefit plan, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple employer, cost sharing plan.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2019. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2021 Contribution	\$96,206
June 30, 2020 Contribution	\$94,122

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2020 and the total OPEB liabilities used to calculate the net OPEB liabilities was determined by an actuarial valuation performed as of June 30, 2019 and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the net OPEB liabilities, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2021 proportionate share of liability	\$1,468,409
June 30, 2020 proportion	0.08799%
June 30, 2019 proportion	0.08936%
June 30, 2021 expense	\$53,560

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

**OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources
Related to OPEB (Continued)**

At June 30, 2021, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 94,185	\$ 13,189
Changes of assumptions	73,437	30,661
Net difference between projected and actual earnings on OPEB plan investments	44,110	-
Changes in proportion	11,151	31,931
Employer contributions subsequent to the measurement date	96,206	-
Total	<u>\$ 319,089</u>	<u>\$ 75,781</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources
Related to OPEB (Continued)

Group Life Insurance Program (Continued)

The deferred outflows of resources related to OPEB resulting from the town's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase to OPEB Expense
2022	\$ 19,681
2023	32,137
2024	42,146
2025	44,190
2026	8,878
Thereafter	70

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

**OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources
Related to OPEB (Continued)**

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2019, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.5 – 5.35%
• Locality – hazardous duty employees	3.5 – 4.75%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.375 – 4.75%
Investment rate of return, net of expenses, including inflation*	GLI: 6.75%

- * Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be the percent noted above to simplify preparation of OPEB liabilities.

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Actuarial Assumptions and Other Inputs (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	\$ 3,523,938
Plan fiduciary net position	\$ 1,855,102
Employers' net OPEB liability (asset)	\$ 1,668,836
Plan fiduciary net position as a percentage of total OPEB liability	52.64%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Long-Term Expected Rate of Return

Group Life Insurance

The long-term expected rate of return on VRS investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	4.65 %	1.58 %
Fixed Income	15.00	0.46	0.07
Credit Strategies	14.00	5.38	0.72
Real Assets	14.00	5.01	0.74
Private Equity	14.00	8.34	1.17
MAPS – Multi-Asset Public Strategies	6.00	3.04	0.18
PIP – Private Investment Partnership	3.00	6.49	0.19
Total	100.00 %		4.65 %
Inflation		2.50 %	
*Expected arithmetic nominal return		7.14 %	

- * The above allocation provides for a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

**Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans
(Continued)**

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liabilities of the town, as well as what the town's net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower (5.75% GLI) or one percentage point higher (7.75% GLI) than the current discount rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	<u>\$ 1,930,337</u>	<u>\$ 1,468,409</u>	<u>\$ 1,093,281</u>

(Continued)

TOWN OF HERNDON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Note 12. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2020 Annual Financial Report (Annual Report). A copy of the 2020 VRS may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13. Summary of Pension and Other Post Employment Benefit Elements

	Governmental Activities	Business-Type Activities	Total Primary Government
Deferred outflows of resources - OPEB			
Local plan	\$ 801,105	\$ 84,590	\$ 885,695
VRS GLI	290,190	28,899	319,089
Total deferred outflows of resources - OPEB	<u>\$ 1,091,295</u>	<u>\$ 113,489</u>	<u>\$ 1,204,784</u>
Net OPEB liability			
Local plan	\$ 3,893,250	\$ 337,221	\$ 4,230,471
VRS GLI	1,337,537	130,872	1,468,409
Total net OPEB liability	<u>\$ 5,230,787</u>	<u>\$ 468,093</u>	<u>\$ 5,698,880</u>
Deferred inflows of resources - OPEB			
Local plan	\$ 842,454	\$ 187,921	\$ 1,030,375
VRS GLI	69,027	6,754	75,781
Total deferred inflows of resources - OPEB	<u>\$ 911,481</u>	<u>\$ 194,675</u>	<u>\$ 1,106,156</u>
Pension expense			
VRS	\$ 2,148,380	\$ 210,209	\$ 2,358,589
Total pension expense	<u>\$ 2,148,380</u>	<u>\$ 210,209</u>	<u>\$ 2,358,589</u>
OPEB expense			
Local plan	\$ 438,212	\$ 19,913	\$ 458,125
VRS GLI	48,787	4,773	53,560
Total OPEB expense	<u>\$ 486,999</u>	<u>\$ 24,686</u>	<u>\$ 511,685</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 14. Risk Management

The town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and others; and natural disasters. To reduce insurance costs and the need for self-insurance, the town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. The town is not self-insured.

The town has coverage with the Virginia Risk Sharing Association program (the "Pool") for all insurable risks identified by the town. Each Pool member jointly and severally agrees to assume, pay and discharge any liability. The town pays the Pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Pool and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The town contributes to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

Note 15. Commitments and Contingencies

Federal and State-Assisted Programs

The town has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Litigation:

The town is contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of operations. It is the opinion of town management that any losses not covered by insurance, which may ultimately be incurred as a result of the suits and claims, will not be material to the financial position of the town.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 16. Rentals Under Operating Leases

The town has twelve leases to telecommunication companies for the placement of antennas on the town's water tanks. Lease terms vary by lessee and expire at various dates through July, 2033. Total rental income for 2021 was \$405,143.

2022	\$	427,509
2023		440,334
2024		453,544
2025		373,723
2026		354,019
Thereafter		819,808
Total	\$	<u>2,868,937</u>

Note 17. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance** due to the COVID-19 pandemic.

In June 2017, The GASB issued **Statement No. 87, Leases**. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

In May 2019, the GASB issued **Statement No. 91, Conduit Debt Obligations**. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92, Omnibus**. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 17. New Accounting Standards (Continued)

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Note 18. COVID-19 Impact

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The town’s operations are heavily dependent on the ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed the tax bases and other areas in which the town received revenue during fiscal year 2021. As such, the town’s financial condition and liquidity may be negatively impacted for the fiscal year 2022.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the town’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the town is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.



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REQUIRED SUPPLEMENTARY INFORMATION

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TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS - LOCAL PLAN
Year Ended June 30, 2021

	Plan Year			
	2020	2019	2018	2017
Total OPEB Liability				
Service cost	\$ 235,451	\$ 205,822	\$ 132,301	\$ 127,335
Interest on total OPEB liability	161,075	172,343	120,406	116,391
Changes in benefit terms	-	-	-	-
Difference between actual and expected experience	(1,201,366)	(73,408)	1,209,950	-
Changes of assumptions	238,046	201,946	(70,475)	-
Benefit payments	(225,137)	(77,967)	(95,969)	(175,191)
Net change in total OPEB liability	(791,931)	428,736	1,296,213	68,535
Total OPEB liability (beginning)	<u>5,022,402</u>	<u>4,593,666</u>	<u>3,297,453</u>	<u>3,228,918</u>
Total OPEB liability (ending)	<u><u>\$ 4,230,471</u></u>	<u><u>\$ 5,022,402</u></u>	<u><u>\$ 4,593,666</u></u>	<u><u>\$ 3,297,453</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered payroll	<u>\$ 16,823,189</u>	<u>\$ 17,382,513</u>	<u>\$ 17,382,513</u>	<u>\$ 10,855,369</u>
Net OPEB liability as a percentage of covered employee payroll	<u>25.15%</u>	<u>28.89%</u>	<u>26.43%</u>	<u>30.38%</u>

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2021

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
VRS Group Term Life Insurance					
2021	\$ 96,206	\$ 96,206	\$ -	\$ 17,816,619	0.54%
2020	94,122	94,122	-	18,385,923	0.51%
2019	91,104	91,104	-	17,518,246	0.52%
2018	87,898	87,898	-	16,718,150	0.53%

This schedule is intended to show information for 10 years. Since fiscal year 2018 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2021

Plan Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
VRS Group Term Life Insurance					
2020	0.09%	\$ 1,468,409	\$ 18,385,923	7.99%	52.64%
2019	0.09%	1,454,124	17,518,246	8.30%	52.00%
2018	0.09%	1,350,000	16,718,150	8.08%	51.22%
2017	0.09%	1,362,000	16,663,134	8.17%	48.86%

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year, the covered payroll on which required contributions were based for the same year.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 Year Ended June 30, 2021

	Plan Year						
	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	\$ 1,915,044	\$ 1,796,601	\$ 1,723,180	\$ 1,780,019	\$ 1,775,184	\$ 1,780,620	\$ 1,821,327
Interest on total pension liability	5,681,425	5,501,837	5,263,541	5,143,537	4,887,085	4,664,075	4,385,197
Benefit payments, including refunds of employee contributions	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Difference between actual and expected experience	1,448,447	(482,342)	(297,252)	(1,706,344)	(269,073)	(818,369)	-
Changes of assumptions	-	2,524,588	-	(521,761)	-	-	-
Net change in total pension liability	5,099,179	5,748,222	3,711,464	1,711,221	3,918,249	3,220,324	4,167,410
Total pension liability (beginning)	86,142,125	80,393,903	76,682,439	74,971,218	71,052,969	67,832,645	63,665,235
Total pension liability (ending)	<u>\$ 91,241,304</u>	<u>\$ 86,142,125</u>	<u>\$ 80,393,903</u>	<u>\$ 76,682,439</u>	<u>\$ 74,971,218</u>	<u>\$ 71,052,969</u>	<u>\$ 67,832,645</u>
Plan Fiduciary Net Position							
Contributions - employer	\$ 1,126,210	\$ 1,062,239	\$ 1,239,811	\$ 1,256,634	\$ 1,548,518	\$ 1,562,827	\$ 1,603,624
Contributions - employee	859,817	842,610	813,625	876,797	800,721	807,614	832,188
Net investment income	1,554,123	5,217,554	5,485,075	8,184,878	1,164,925	2,907,557	8,612,262
Benefit payments, including refunds of employee contributions	(3,945,737)	(3,592,462)	(2,978,005)	(2,984,230)	(2,474,947)	(2,406,002)	(2,039,114)
Administrative expenses	(53,891)	(52,294)	(47,214)	(47,240)	(40,637)	(39,225)	(45,658)
Other	(1,845)	(3,286)	(4,893)	(7,263)	(490)	(616)	454
Net change in plan fiduciary net position	(461,323)	3,474,361	4,508,399	7,279,576	998,090	2,832,155	8,963,756
Plan fiduciary net position - beginning	82,305,752	78,831,391	74,322,992	67,043,416	66,045,326	63,213,171	54,249,415
Plan fiduciary net position - ending	<u>\$ 81,844,429</u>	<u>\$ 82,305,752</u>	<u>\$ 78,831,391</u>	<u>\$ 74,322,992</u>	<u>\$ 67,043,416</u>	<u>\$ 66,045,326</u>	<u>\$ 63,213,171</u>
Net pension liability - ending	<u>\$ 9,396,875</u>	<u>\$ 3,836,373</u>	<u>\$ 1,562,512</u>	<u>\$ 2,359,447</u>	<u>\$ 7,927,802</u>	<u>\$ 5,007,643</u>	<u>\$ 4,619,474</u>
Plan fiduciary net position as a percentage of total pension liability	89.70%	95.55%	98.06%	96.92%	89.43%	92.95%	93.19%
Covered payroll	<u>\$ 18,385,923</u>	<u>\$ 17,501,069</u>	<u>\$ 16,835,121</u>	<u>\$ 16,663,134</u>	<u>\$ 16,563,441</u>	<u>\$ 15,901,012</u>	<u>\$ 16,413,756</u>
Net pension liability as a percentage of covered payroll	51.11%	21.92%	9.28%	14.16%	47.86%	31.49%	28.14%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

Schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 June 30, 2021

Fiscal Year Ended June 30	Contracturally Determined Contribution	Contributions in Relation to Contracturally Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2021	\$ 1,357,946	\$ 1,357,946	\$ -	\$ 17,816,619	7.62 %
2020	1,124,256	1,124,256	-	18,385,923	6.11
2019	1,062,239	1,062,239	-	17,501,069	6.07
2018	1,239,811	1,239,811	-	16,835,121	7.36
2017	1,256,634	1,256,634	-	16,663,134	7.54
2016	1,548,518	1,573,635	-	16,563,441	9.50
2015	1,562,827	1,562,827	-	15,901,012	9.83

This schedule is intended to show information for 10 years. Since fiscal year 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2021

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates at older ages and extended final retirement age from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates from 14% to 20%
- Decrease discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience at each age and service year
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 60% to 70%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

(Continued)

TOWN OF HERNDON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table to RP-2014 projected to 2020
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rate from 14% to 15%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table to RP-2014 projected to 2020
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience at each age and service year
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Decreased discount rate from 7.00% to 6.75%
- Applicable to: Pension, GLI OPEB

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OTHER SUPPLEMENTARY INFORMATION

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Nonmajor Governmental Funds

Special Revenue Fund

Special revenue funds are used to account for specific revenues that are legally committed by legislative imposition by the Herndon Town Council to expenditure for particular purposes. The town's special revenue fund is the Chestnut Grove Cemetery Perpetual Care Fund.

Capital Projects Fund

Capital projects funds are generally used to account for the acquisition and construction of major capital projects other than those financed by proprietary funds and trust funds. The Information Systems Improvement Fund accounts for the town's acquisition of telecommunications equipment, computer hardware and software, and other automated systems. This fund was closed to the Capital Projects Fund in 2021.

TOWN OF HERNDON, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2021

Exhibit B-1

	<u>Special Revenue</u> Chestnut Grove Cemetery Perpetual Care Fund	<u>Capital Projects</u> Information Systems Improvement Fund	<u>Total</u> Nonmajor Governmental Funds
ASSETS			
Cash, cash equivalents and investments	\$ -	\$ -	\$ -
Accrued interest	14,232	-	14,232
Cash, cash equivalents and investments - restricted	1,833,109	-	1,833,109
 Total assets	 <u>\$ 1,847,341</u>	 <u>\$ -</u>	 <u>\$ 1,847,341</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Restricted:			
Cemetery perpetual care	1,847,341	-	1,847,341
Assigned:			
Prior year reserve for encumbrances	-	-	-
Subsequent years' expenditures for Information Systems Improvement Fund	-	-	-
 Total fund balances	 <u>1,847,341</u>	 <u>-</u>	 <u>1,847,341</u>
 Total liabilities and fund balances	 <u>\$ 1,847,341</u>	 <u>\$ -</u>	 <u>\$ 1,847,341</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2021**

	<u>Special Revenue</u> Chestnut Grove Cemetery Perpetual Care Fund	<u>Capital Projects</u> Information Systems Improvement Fund	<u>Total</u> Nonmajor Governmental Funds
Revenues:			
Revenue from local sources:			
Use of money and property	\$ 18,816	\$ -	\$ 18,816
Total revenues	18,816	-	18,816
Expenditures:			
Capital outlay	-	2,722	2,722
Excess/(Deficiency) of revenues over expenditures	18,816	(2,722)	16,094
Other financing sources (uses):			
Transfers in	67,858	-	67,858
Transfers out	(18,816)	(13,600)	(32,416)
Total other financing sources, net	49,042	(13,600)	35,442
Net change in fund balances	67,858	(16,322)	51,536
Fund balances, July 1	1,779,483	16,322	1,795,805
Fund balances, June 30	<u>\$ 1,847,341</u>	<u>\$ -</u>	<u>\$ 1,847,341</u>

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 1GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Revenue from local sources:				
General property taxes:				
Real estate taxes	\$ 12,500,000	\$ 12,500,000	\$ 12,549,695	\$ 49,695
Elderly tax relief exemption	(120,000)	(120,000)	(157,975)	(37,975)
Public service corporation taxes	328,000	328,000	327,553	(447)
Penalties and interest	20,000	20,000	103,125	83,125
Total general property taxes	12,728,000	12,728,000	12,822,398	94,398
Other local taxes:				
Consumer utility tax	808,000	808,000	781,368	(26,632)
Right of way use fees	125,000	125,000	107,901	(17,099)
Cigarette tax	226,000	226,000	178,772	(47,228)
Transient occupancy tax	535,563	535,563	888,999	353,436
Meals tax	1,745,000	1,745,000	2,805,350	1,060,350
Bank stock tax	318,650	318,650	406,526	87,876
Cable TV franchise tax	169,000	169,000	161,515	(7,485)
Business licenses (BPOL)	4,200,000	5,673,625	6,680,365	1,006,740
Utility consumption tax	89,000	89,000	85,743	(3,257)
Motor vehicle licenses	405,000	405,000	432,593	27,593
Local sales tax	1,657,500	1,657,500	2,033,030	375,530
Total other local taxes	10,278,713	11,752,338	14,562,162	2,809,824
Permits, privilege fees and regulatory licenses:				
Residential parking permits	600	600	300	(300)
Planning fees	130,000	130,000	112,066	(17,934)
State stormwater management fees	6,000	6,000	4,181	(1,819)
Building inspection fees	420,000	420,000	331,139	(88,861)
Right of way permit fees	15,000	15,000	10,033	(4,967)
Total permits, privilege fees and regulatory licenses	571,600	571,600	457,719	(113,881)
Fines and forfeitures:				
Parking fines	36,500	36,500	21,046	(15,454)
Court fees - Fairfax County	320,000	320,000	234,100	(85,900)
Court maintenance fees	11,000	11,000	4,226	(6,774)
E-Summons fees	20,000	20,000	16,091	(3,909)
Zoning fines	-	-	6,049	6,049
Total fines and forfeitures	387,500	387,500	281,512	(105,988)

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 2GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue from local sources: (Continued)				
Use of money and property:				
Interest on investments	\$ 150,900	\$ 150,900	\$ 65,142	\$ (85,758)
Rental income	489,000	489,000	449,665	(39,335)
Total use of money and property	639,900	639,900	514,807	(125,093)
Charges for services:				
Franchise lease	66,000	66,000	73,470	7,470
Special refuse collection	40,000	40,000	19,360	(20,640)
Recycling collection	364,000	364,000	367,221	3,221
Recreation program fees	769,315	769,315	291,834	(477,481)
Admission fees	207,505	207,505	64,751	(142,754)
Park operation	11,500	11,500	16,124	4,624
Herndon festival	-	-	112	112
Concession	8,979	8,979	2,139	(6,840)
Rental income - parks & recreation	58,703	58,703	21,956	(36,747)
Tennis/multi-use facility	130,000	130,000	75,966	(54,034)
Sale of recyclable materials	5,000	5,000	8,485	3,485
Quasi - external revenue - charges for administration, personnel and other services:				
Water and sewer fund	530,094	530,094	530,094	-
Chestnut grove cemetery fund	17,400	17,400	17,400	-
Golf course fund	27,300	27,300	36,400	9,100
Total charges for services	2,235,796	2,235,796	1,525,312	(710,484)
Miscellaneous	4,000	4,250	9,985	5,735
Total revenue from local sources	26,845,509	28,319,384	30,173,895	1,854,511
Intergovernmental:				
County of Fairfax:				
Contribution toward tourism and economic development	140,000	140,000	140,000	-
Total from County of Fairfax	140,000	140,000	140,000	-

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-3
Page 3GENERAL FUND
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Intergovernmental: (Continued)				
Other Local Governments:				
NOVA regional Gang Task Force grant	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Commonwealth:				
Non-categorical aid:				
Police reimbursement (Section 599)	628,000	628,000	647,785	19,785
Communications sales and use tax	1,400,000	1,400,000	1,268,599	(131,401)
Vehicle rental taxes	20,000	20,000	35,502	15,502
Total non-categorical aid	2,048,000	2,048,000	1,951,886	(96,114)
Categorical aid:				
Fire fund program	80,621	88,766	88,766	-
Litter control grant	6,000	6,000	5,540	(460)
Dept. of Criminal Justice Service -				
NOVA regional ICAC grant	30,000	30,000	45,000	15,000
State seized assets	-	50,831	79,930	29,099
VDOT revenue sharing paving grant	-	-	182,218	182,218
Forestry grant	-	-	1,463	1,463
VDEM Building inspection grant	-	2,000	-	(2,000)
Street and highway maintenance allocation	2,030,000	2,030,000	2,065,594	35,594
Total categorical aid	2,146,621	2,207,597	2,468,511	260,914
Total from the Commonwealth	4,194,621	4,255,597	4,420,397	164,800
Federal government:				
Categorical aid:				
CARES Act Grant	-	4,210,441	2,402,516	(1,807,925)
Dept. of Transportation/ National Highway Safety				
Administration - Selective Enforcement Grant	30,000	30,000	26,267	(3,733)
US Dept. of Justice/ Criminal Division Office				
FEMA	-	-	60,244	60,244
Bullet Proof Vest Grant	1,000	1,000	4,995	3,995
HIDTA Grant	2,500	2,500	210	(2,290)
Community Development Bloc Grant	90,000	90,000	66,894	(23,106)
Total from the Federal government	123,500	4,333,941	2,561,126	(1,772,815)
Total intergovernmental revenue	4,478,121	8,749,538	7,121,523	(1,628,015)
Other financing sources:				
Proceeds from sale of surplus property	-	65,000	84,502	19,502
Insurance recoveries	-	20,467	94,932	74,465
Transfer in from DTP fund	-	-	1,734,998	1,734,998
Bond proceeds	-	-	5,087,915	5,087,915
Total other financing sources (uses)	-	85,467	7,002,347	6,916,880
Total General Fund revenues	\$ 31,323,630	\$ 37,154,389	\$ 44,297,765	\$ 7,143,376

TOWN OF HERNDON, VIRGINIA

**Exhibit B-4
Page 1**

**GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Legislative:				
Personnel services	\$ 421,712	\$ 456,712	\$ 439,860	\$ 16,852
Operations and maintenance	60,300	60,300	67,231	(6,931)
Total legislative	<u>482,012</u>	<u>517,012</u>	<u>507,091</u>	<u>9,921</u>
Administration:				
Communications & Economic Development:				
Personnel services	382,938	382,938	363,388	19,550
Operations and maintenance	33,125	33,125	25,801	7,324
	<u>416,063</u>	<u>416,063</u>	<u>389,189</u>	<u>26,874</u>
Town manager:				
Personnel services	385,941	385,941	387,720	(1,779)
Operations and maintenance	20,450	20,450	13,512	6,938
	<u>406,391</u>	<u>406,391</u>	<u>401,232</u>	<u>5,159</u>
Human resources:				
Personnel services	448,900	448,900	428,587	20,313
Operations and maintenance	58,975	79,128	79,981	(853)
	<u>507,875</u>	<u>528,028</u>	<u>508,568</u>	<u>19,460</u>
Information services:				
Personnel services	733,388	722,388	646,662	75,726
Operations and maintenance	686,086	800,101	788,246	11,855
Capital outlay	14,500	46,500	41,125	5,375
	<u>1,433,974</u>	<u>1,568,989</u>	<u>1,476,033</u>	<u>92,956</u>
Total administration	<u>2,764,303</u>	<u>2,919,471</u>	<u>2,775,022</u>	<u>144,449</u>
Town attorney:				
Personnel services	676,409	676,409	619,976	56,433
Operations and maintenance	105,756	105,756	106,663	(907)
Total town attorney	<u>782,165</u>	<u>782,165</u>	<u>726,639</u>	<u>55,526</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 2GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Parks and recreation:				
Administration:				
Personnel services	\$ 679,626	\$ 679,626	\$ 658,321	\$ 21,305
Operations and maintenance	87,700	86,800	46,949	39,851
	<u>767,326</u>	<u>766,426</u>	<u>705,270</u>	<u>61,156</u>
Recreation programs:				
Personnel services	569,333	569,333	483,576	85,757
Operations and maintenance	132,850	125,000	14,979	110,021
	<u>702,183</u>	<u>694,333</u>	<u>498,555</u>	<u>195,778</u>
Community center operations:				
Personnel services	857,735	772,735	664,248	108,487
Operations and maintenance	107,550	249,924	220,476	29,448
	<u>965,285</u>	<u>1,022,659</u>	<u>884,724</u>	<u>137,935</u>
Aquatics programs and operations:				
Personnel services	529,951	469,951	398,014	71,937
Operations and maintenance	113,380	120,380	61,882	58,498
Capital outlay	-	-	-	-
	<u>643,331</u>	<u>590,331</u>	<u>459,896</u>	<u>130,435</u>
Park operations and development:				
Personnel services	66,961	66,961	54,094	12,867
Operations and maintenance	54,775	75,000	62,809	12,191
	<u>121,736</u>	<u>141,961</u>	<u>116,903</u>	<u>25,058</u>
Total parks and recreation	<u>3,199,861</u>	<u>3,215,710</u>	<u>2,665,348</u>	<u>550,362</u>

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 3GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Administration:				
Personnel services	\$ 374,528	\$ 399,528	\$ 397,916	\$ 1,612
Operations and maintenance	58,711	58,711	64,839	(6,128)
	433,239	458,239	462,755	(4,516)
Accounting:				
Personnel services	564,774	528,774	524,375	4,399
Operations and maintenance	22,208	22,208	21,806	402
	586,982	550,982	546,181	4,801
Revenue:				
Personnel services	283,594	319,594	320,273	(679)
Operations and maintenance	30,480	30,480	31,477	(997)
	314,074	350,074	351,750	(1,676)
Procurement:				
Personnel services	122,823	122,823	115,770	7,053
Operations and maintenance	1,073	1,073	1,422	(349)
	123,896	123,896	117,192	6,704
Total finance	1,458,191	1,483,191	1,477,878	5,313
Community development:				
Administration:				
Personnel services	1,879,022	1,854,022	1,634,646	219,376
Operations and maintenance	69,775	145,938	84,372	61,566
	1,948,797	1,999,960	1,719,018	280,942
Community inspections:				
Personnel services	194,203	194,203	191,701	2,502
Operations and maintenance	3,700	2,700	1,642	1,058
Capital outlay	-	342	-	342
	197,903	197,245	193,343	3,902
Total community development	2,146,700	2,197,205	1,912,361	284,844

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 4GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Police:				
Field operations:				
Personnel services	\$ 5,186,357	\$ 5,186,357	\$ 4,959,730	\$ 226,627
Operations and maintenance	190,000	206,362	182,064	24,298
Capital outlay	51,300	209,658	87,243	122,415
	5,427,657	5,602,377	5,229,037	373,340
Support services:				
Personnel services	3,999,134	3,999,134	4,047,348	(48,214)
Operations and maintenance	633,350	662,270	571,700	90,570
Capital outlay	-	32,000	1,216	30,784
	4,632,484	4,693,404	4,620,264	73,140
Total police	10,060,141	10,295,781	9,849,301	446,480
Public Works:				
Administration:				
Personnel services	822,275	822,275	801,958	20,317
Operations and maintenance	18,949	47,008	15,857	31,151
	841,224	869,283	817,815	51,468
Engineering:				
Personnel services	658,928	658,928	685,339	(26,411)
Operations and maintenance	109,250	117,286	32,847	84,439
	768,178	776,214	718,186	58,028
Program management:				
Personnel services	245,593	245,593	236,852	8,741
Operations and maintenance	302,375	338,559	16,438	322,121
	547,968	584,152	253,290	330,862
Building inspections:				
Personnel services	521,727	521,727	450,619	71,108
Operations and maintenance	97,996	108,741	95,932	12,809
	619,723	630,468	546,551	83,917
Building maintenance:				
Personnel services	505,474	505,474	431,049	74,425
Operations and maintenance	811,625	874,248	714,647	159,601
	1,317,099	1,379,722	1,145,696	234,026

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 5GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Public Works: (Continued)				
Grounds maintenance:				
Personnel services	\$ 781,763	\$ 781,763	\$ 830,044	\$ (48,281)
Operations and maintenance	230,300	227,300	137,027	90,273
	1,012,063	1,009,063	967,071	41,992
Street maintenance:				
Personnel services	736,237	736,237	847,162	(110,925)
Operations and maintenance	674,100	711,321	500,834	210,487
	1,410,337	1,447,558	1,347,996	99,562
Refuse/recycling:				
Personnel services	1,085,167	1,085,167	990,347	94,820
Operations and maintenance	692,100	715,090	680,099	34,991
	1,777,267	1,800,257	1,670,446	129,811
Vehicle and equipment maintenance:				
Personnel services	807,076	807,076	719,318	87,758
Operations and maintenance	316,175	444,782	315,136	129,646
Capital outlay	250,000	578,759	36,978	541,781
	1,373,251	1,830,617	1,071,432	759,185
Traffic engineering:				
Personnel services	252,218	252,218	268,620	(16,402)
Operations and maintenance	119,200	119,200	90,770	28,430
	371,418	371,418	359,390	12,028
Right of way inspections:				
Personnel services	310,556	310,556	320,727	(10,171)
Operations and maintenance	9,275	9,275	6,872	2,403
	319,831	319,831	327,599	(7,768)
Total public works	10,358,359	11,018,583	9,225,472	1,793,111

(Continued)

TOWN OF HERNDON, VIRGINIA

Exhibit B-4
Page 6

GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Grants:				
Operations	\$ -	\$ 4,298,483	\$ 278,570	\$ 4,019,913
Total grants	-	4,298,483	278,570	4,019,913
Non-departmental				
Operations	302,452	461,591	377,676	83,915
Total non-departmental	302,452	461,591	377,676	83,915
Debt service:				
Principal	1,548,826	1,548,826	4,273,129	(2,724,303)
Interest and fiscal charges	201,295	201,295	396,744	(195,449)
Total debt service	1,750,121	1,750,121	4,669,873	(2,919,752)
Other financing uses:				
Payments to escrow agent on bond refunding	-	-	1,604,801	(1,604,801)
Transfers out	-	600,000	-	600,000
Total other financing sources (uses)	-	600,000	1,604,801	(1,004,801)
Total General Fund expenditures	\$ 33,304,305	\$ 39,539,313	\$ 36,070,032	\$ 3,469,281

TOWN OF HERNDON, VIRGINIA

Exhibit B-5

GOVERNMENTAL FUND TYPE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND AND INFORMATION SYSTEMS IMPROVEMENT FUND
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
Use of money and property	\$ -	\$ -	\$ 21,564	\$ 21,564
Miscellaneous	121,000	421,000	-	(421,000)
Intergovernmental	3,419,000	3,519,000	933,018	(2,585,982)
Total revenues	3,540,000	3,940,000	954,582	(2,985,418)
Capital Outlay:				
Police	-	154	-	154
Public works:				
Admin, buildings, and grounds	1,000,000	1,610,065	67,170	1,542,895
Streets, sidewalks, and trails	2,240,000	20,831,131	1,247,601	19,583,530
Storm water	300,000	693,078	188,644	504,434
Other infrastructure	-	1,989,958	16,358	1,973,600
Information systems improvements	-	6,044	2,722	3,322
Total expenditures	3,540,000	25,130,430	1,522,495	23,607,935
Revenues under expenditures	-	(21,190,430)	(567,913)	20,622,517
Other financing sources:				
Transfers in	-	-	13,600	13,600
Transfers out	-	-	(122,600)	(122,600)
Total other financing sources	-	-	(109,000)	(109,000)
Net change in fund balance	\$ -	\$ (21,190,430)	\$ (676,913)	\$ 20,513,517

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STATISTICAL SECTION

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**TOWN OF HERNDON, VIRGINIA
STATISTICAL SECTION**

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Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

TOWN OF HERNDON, VIRGINIA

Table 1

NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Governmental activities:										
Net investment in capital assets	\$ 70,770,618	\$ 67,773,944	\$ 66,964,850	\$ 69,544,673	\$ 70,494,388	\$ 71,246,008	\$ 71,885,582	\$ 70,826,382	\$ 73,311,591	\$ 76,256,170
Restricted	-	3,156,244	3,156,490	2,400,979	3,985,488	1,618,442	2,132,077	2,542,708	1,781,483	1,847,341
Unrestricted	13,453,945	12,982,159	13,031,542	5,849,529	7,336,877	8,499,347	10,633,283	14,016,685	15,761,317	21,402,934
Total governmental activities net position	\$ 84,224,563	\$ 83,912,347	\$ 83,152,882	\$ 77,795,181	\$ 81,816,753	\$ 81,363,797	\$ 84,650,942	\$ 87,385,775	\$ 90,854,391	\$ 99,506,445
Business-type activities:										
Net investment in capital assets	\$ 14,333,960	\$ 14,277,687	\$ 14,409,510	\$ 14,601,815	\$ 16,773,326	\$ 16,771,452	\$ 16,649,854	\$ 16,512,129	\$ 17,092,331	\$ 14,818,995
Restricted	-	-	-	-	-	151,114	161,671	172,116	155,747	160,515
Unrestricted	15,810,683	15,838,128	17,747,172	17,347,462	15,399,987	14,653,463	15,559,458	15,985,051	16,082,595	13,426,076
Total business-type activities net position	\$ 30,144,643	\$ 30,115,815	\$ 32,156,682	\$ 31,949,277	\$ 32,173,313	\$ 31,576,029	\$ 32,370,983	\$ 32,669,296	\$ 33,330,673	\$ 28,405,586
Primary government:										
Net investment in capital assets	\$ 85,104,578	\$ 82,051,631	\$ 81,374,360	\$ 84,146,488	\$ 87,267,714	\$ 88,017,460	\$ 88,535,436	\$ 87,338,511	\$ 90,403,922	\$ 91,075,165
Restricted	-	3,156,244	3,156,490	2,400,979	3,985,488	1,769,556	2,293,748	2,714,824	1,937,230	2,007,856
Unrestricted	29,264,628	28,820,287	30,778,714	23,196,991	22,736,864	23,152,810	26,192,741	30,001,736	31,843,912	34,829,010
Total primary government net position	\$ 114,369,206	\$ 114,028,162	\$ 115,309,564	\$ 109,744,458	\$ 113,990,066	\$ 112,939,826	\$ 117,021,925	\$ 120,055,071	\$ 124,185,064	\$ 127,912,031
			(1)		(2)	(3)	(4)			(4)

Source:
Town of Herndon Finance Department - Exhibit A-1

Notes:

- (1) Fiscal Year 2014 net position was restated for the implementation of GASB Statement No. 68 which reduced net position by \$7,812,196.
- (2) Fiscal Year 2016 unrestricted net position was restated by \$726,240 due to the recognition of various fees (Lateral Sewer fees, Stormwater fees, and BPOL reserve) previously reported as deferred or unearned.
- (3) Fiscal Year 2017 net position was restated for the implementation of GASB Statement No. 75 which reduced net position by \$2,059,806.
- (4) Fiscal Year 2021 the Downtown Parking Fund net position of \$725,872 was reclassified from business-type activities to governmental activities.

TOWN OF HERNDON, VIRGINIA

Table 2

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Expenses:										
Governmental activities:										
Legislative	\$ 583,204	\$ 640,816	\$ 627,221	\$ 602,274	\$ 677,277	\$ 745,753	\$ 706,048	\$ 734,671	\$ 551,445	\$ 566,955
Administration	2,644,089	2,744,129	4,043,656	2,965,744	2,691,531	3,304,796	3,017,512	3,093,764	3,716,194	3,423,026
Town attorney	475,518	497,761	539,332	522,777	556,236	606,758	612,209	612,349	837,152	1,001,496
Parks and recreation	4,359,512	4,608,079	4,659,976	4,732,787	4,839,122	5,012,560	4,879,803	5,280,626	4,649,822	3,312,797
Finance	1,291,803	1,379,724	1,320,493	1,321,326	1,485,207	1,492,031	1,710,148	1,501,718	1,585,696	1,588,972
Community development	2,138,936	2,127,055	1,980,462	1,804,660	1,682,901	1,672,244	1,699,935	1,896,791	2,205,030	2,318,909
Police	8,834,312	9,465,667	9,548,043	9,174,389	10,021,992	10,079,277	10,242,016	10,390,551	11,141,097	10,801,750
Public works	11,861,291	11,488,561	11,530,515	11,501,379	11,665,946	12,594,496	11,337,194	11,598,171	12,810,607	11,860,528
Interest	938,843	533,155	443,213	511,089	287,036	258,075	257,963	491,896	327,914	305,188
Total governmental activities	33,127,508	33,484,947	34,692,911	33,136,425	33,907,248	35,765,990	34,462,828	35,600,537	37,824,957	35,179,621
Business-type activities:										
Water and sewer	7,173,978	7,064,425	7,589,406	6,869,506	7,044,675	7,606,887	6,999,142	8,090,566	7,245,711	7,461,338
Golf course	1,531,506	1,595,145	1,554,011	1,567,919	1,506,117	1,559,749	1,572,043	1,503,005	1,516,523	1,684,876
Chestnut Grove cemetery	686,962	729,837	707,836	697,207	710,164	708,383	668,944	703,935	682,704	784,405
Downtown parking	29,473	29,390	32,945	28,283	72,623	111,913	133,985	110,788	61,674	101,603
Total business-type activities	9,421,919	9,418,797	9,884,198	9,162,915	9,333,579	9,986,932	9,374,114	10,408,294	9,506,612	10,032,222
Total government expenses	42,549,427	42,903,744	44,577,109	42,299,340	43,240,827	45,752,922	43,836,942	46,008,831	47,331,569	45,211,843
Program revenue:										
Governmental activities:										
Charges for services:										
Administration	20,573	19,606	34,762	24,327	9,675	41,075	35,976	6,892	3,205	8,485
Parks and recreation	2,837,304	2,826,309	2,762,453	2,785,759	2,710,943	2,767,730	2,767,916	2,873,136	1,399,288	472,882
Finance	488,270	512,690	533,200	549,600	560,500	571,700	588,333	588,333	583,894	583,894
Police	583,820	498,279	469,812	543,901	447,552	397,691	430,685	460,288	332,689	259,372
Public works	421,503	687,130	646,287	634,681	762,796	710,671	749,504	1,208,825	821,113	898,653
Operating grants and contributions:										
Administration	29,348	-	-	-	-	-	-	-	-	-
Community development	129,380	130,823	130,000	130,000	40,000	40,000	40,000	40,000	40,000	140,000
Police	707,317	627,749	751,934	671,045	666,752	707,588	864,195	745,352	2,530,623	3,208,911
Public works	806,055	890,712	862,301	936,748	953,146	1,178,505	1,046,761	1,080,054	1,194,716	1,234,256
Capital grants and contributions:										
Police	-	-	-	-	-	-	-	-	-	-
Public works	2,570,040	1,881,507	1,610,482	1,955,113	3,244,961	2,168,349	2,765,821	2,658,343	4,945,608	2,167,274
Total governmental activities program revenue	8,593,610	8,074,805	7,801,231	8,231,174	9,396,325	8,583,309	9,289,191	9,661,223	11,851,136	8,973,727

TOWN OF HERNDON, VIRGINIA

Table 2
Page 2CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (1)
(accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Program revenues (Continued):										
Business-type activities:										
Charges for services:										
Water and sewer	\$ 6,207,789	\$ 6,285,282	\$ 6,445,760	\$ 6,303,140	\$ 6,127,359	\$ 6,506,438	\$ 6,935,184	\$ 7,170,706	\$ 6,900,460	\$ 6,342,651
Golf course	1,419,051	1,392,960	1,365,597	1,309,211	1,401,722	1,497,289	1,372,186	1,389,986	1,183,263	2,216,761
Chestnut Grove cemetery	639,107	695,230	806,521	725,182	783,598	890,165	967,731	905,155	821,964	1,144,677
Downtown parking	-	-	-	-	-	26,903	-	-	-	-
Capital grants and contributions:										
Water and sewer	50,512	119,085	-	-	-	-	-	-	-	-
Golf course	-	61,160	154,239	16,670	-	-	-	-	-	-
Total business-type activities program revenues	8,316,459	8,553,717	8,772,117	8,354,203	8,312,679	8,920,795	9,275,101	9,465,847	8,905,687	9,704,089
Total government program revenues	16,910,069	16,628,522	16,573,348	16,585,377	17,709,004	17,504,104	18,564,292	19,127,070	20,756,823	18,677,816
Net (expense) revenue:										
Governmental activities	(24,533,898)	(25,410,142)	(26,891,680)	(24,905,251)	(24,510,923)	(27,182,681)	(25,173,637)	(25,939,314)	(25,973,821)	(26,205,894)
Business-type activities	(1,105,460)	(865,080)	(1,112,081)	(808,712)	(1,020,900)	(1,066,137)	(99,013)	(942,447)	(600,925)	(328,133)
Total government net expense	(25,639,358)	(26,275,222)	(28,003,761)	(25,713,963)	(25,531,823)	(28,248,818)	(25,272,650)	(26,881,761)	(26,574,746)	(26,534,027)
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
General property	9,484,072	10,153,920	10,482,821	10,963,925	11,040,763	11,218,438	11,416,010	11,690,750	12,255,705	12,837,288
Business license	3,928,098	4,481,963	4,750,718	4,860,528	4,868,291	5,569,516	5,732,161	4,930,755	5,871,507	6,786,720
Transient occupancy	2,235,969	2,088,149	2,091,900	2,187,198	2,169,852	2,199,410	2,286,397	2,345,943	1,607,031	855,309
Meals	1,991,460	2,008,529	2,046,307	2,121,519	2,173,102	2,215,677	2,266,761	2,308,551	2,975,487	2,876,751
Local sales	1,601,032	1,668,325	1,703,517	1,848,993	1,871,189	1,798,728	1,818,023	1,871,909	1,897,945	2,033,030
Other local taxes	2,264,521	2,195,384	2,258,268	2,300,406	2,290,371	2,393,966	2,361,383	2,293,183	2,127,774	2,154,418
Revenues not restricted to specific programs	-	82,940	85,328	87,940	90,539	93,362	102,243	66,330	58,203	73,470
Intergovernmental, non-categorical aid	1,790,631	1,957,744	1,937,785	1,815,751	1,868,193	2,067,279	1,583,697	1,482,539	1,460,834	1,304,101
Use of money and property	899,551	451,965	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187
Gain on sale of capital assets	-	-	-	-	14,927	-	-	65,954	19,727	80,168
Miscellaneous and lease income	201,030	184,899	1,984,086	77,560	708,184	206,101	350,137	481,258	101,558	104,917
Transfers	(217,583)	(175,892)	(2,109,986)	(386,638)	(174,904)	(155,593)	(144,987)	(218,825)	(12,302)	5,196,589
Total governmental activities	24,178,781	25,097,926	26,341,880	26,679,168	27,947,659	28,516,386	28,460,782	28,674,147	29,442,437	34,857,948

TOWN OF HERNDON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Unaudited)**

**Table 2
Page 3**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General revenues and other changes in net position: (Continued)										
Business-type activities:										
Intergovernmental, non-categorical aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	449,725	\$ 14,220
Use of money and property	547,645	80,894	487,345	276,557	325,396	68,405	132,979	369,224	224,571	22,505
Gain on sale of capital assets	-	-	-	-	-	6,370	33,556	12,904	10,800	-
Miscellaneous	559,314	579,466	615,068	618,690	603,232	511,630	582,445	639,807	564,904	562,910
Transfers	217,583	175,892	2,109,986	386,638	174,904	155,593	144,987	218,825	12,302	(5,196,589)
Total business-type activities	1,324,542	836,252	3,212,399	1,281,885	1,103,532	741,998	893,967	1,240,760	1,262,302	(4,596,954)
Total primary government	25,503,323	25,934,178	29,554,279	27,961,053	29,051,191	29,258,384	29,354,749	29,914,907	30,704,739	30,260,994
Changes in net position:										
Governmental activities	(355,117)	(312,216)	(549,800)	1,773,917	3,436,736	1,333,705	3,287,145	2,734,833	3,468,616	8,652,054
Business-type activities	219,082	(28,828)	2,100,318	473,173	82,632	(324,139)	794,954	298,313	661,377	(4,925,087)
Total primary government	\$ (136,035)	\$ (341,044)	\$ 1,550,518	\$ 2,247,090	\$ 3,519,368	\$ 1,009,566	\$ 4,082,099	\$ 3,033,146	\$ 4,129,993	\$ 3,726,967

Source:
Town of Herndon Finance Department - Exhibit A-2

Note:
(1) Net (expense) revenue is the difference between the expenses and program revenues. This difference indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in a parentheses are net expenses indicating that expenses were greater than program revenues, and the revenues were needed to finance that function or program. Numbers without parentheses are net revenues, demonstrating that program revenues were more than sufficient to cover expenses.

TOWN OF HERNDON, VIRGINIA

Table 3

FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Fund:										
Nonspendable	\$ 437,038	\$ 396,781	\$ 319,403	\$ 274,029	\$ 291,196	\$ 338,093	\$ 252,186	\$ 211,510	\$ 166,659	\$ 258,029
Restricted	-	-	-	3,716	3,170	3,228	310,000	-	2,224	1,095,266
Committed	200,000	400,000	600,000	800,000	1,000,000	1,200,000	1,400,000	-	-	-
Assigned	1,275,540	1,478,176	1,494,774	2,108,853	2,898,995	2,859,002	2,869,397	5,581,134	5,338,176	6,114,606
Unassigned	6,899,792	7,109,184	8,164,509	8,454,408	9,084,025	9,345,836	10,196,779	10,537,670	13,293,488	19,560,379
Total General Fund	\$ 8,812,370	\$ 9,384,141	\$ 10,578,686	\$ 11,641,006	\$ 13,277,386	\$ 13,746,159	\$ 15,028,362	\$ 16,330,314	\$ 18,800,547	\$ 27,028,280
All Other Governmental Funds:										
Nonspendable	\$ 400	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ -	\$ -
Restricted	1,401,996	4,600,626	4,654,446	3,935,728	4,019,354	1,764,513	2,132,077	6,073,939	6,293,607	6,353,031
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	9,073,286	5,466,901	5,045,594	3,252,034	3,942,806	6,510,193	6,335,363	6,944,452	5,308,565	4,640,086
Unassigned	-	-	-	-	(16,879)	(330,872)	(206,498)	-	-	-
Total all other governmental funds	\$ 10,475,682	\$ 10,067,527	\$ 9,700,040	\$ 7,187,762	\$ 7,970,281	\$ 7,968,834	\$ 8,285,942	\$ 13,043,391	\$ 11,602,172	\$ 10,993,117

Source:

Town of Herndon Finance Department - Exhibit A-3

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TOWN OF HERNDON, VIRGINIA

Table 4

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues:										
General property taxes	\$ 9,469,904	\$ 10,166,799	\$ 10,500,239	\$ 10,970,320	\$ 11,029,513	\$ 11,214,419	\$ 11,367,365	\$ 11,691,186	\$ 12,241,266	\$ 12,822,398
Other local taxes	12,021,080	12,442,350	12,850,710	13,318,644	13,372,805	14,177,297	14,463,451	13,750,341	14,212,059	14,562,162
Permits, privilege fees and regulatory licenses	307,471	576,155	532,695	522,048	630,218	559,488	603,773	1,057,412	585,191	457,719
Fines and forfeitures	586,607	491,067	632,491	547,939	463,312	423,335	452,965	485,008	353,593	281,512
Use of money and property	899,551	451,965	1,111,136	801,986	1,027,152	909,502	688,957	1,355,800	1,078,968	555,187
Charges for services	3,553,684	3,550,572	3,525,332	3,556,221	3,488,475	3,599,406	3,619,194	3,662,069	2,248,267	1,525,312
Miscellaneous	173,216	156,708	33,485	77,560	708,184	206,101	350,137	258,073	51,691	9,985
Intergovernmental	5,601,971	5,020,623	5,338,235	5,508,657	6,773,052	6,161,721	6,300,473	6,006,287	10,171,781	8,054,541
Total revenues	32,613,484	32,856,239	34,524,323	35,303,375	37,492,711	37,251,269	37,846,315	38,266,176	40,942,816	38,268,816
Expenditures:										
Legislative	574,002	633,519	622,325	626,639	654,549	698,951	699,202	713,209	500,752	507,091
Administration	2,039,372	2,249,139	2,319,175	2,457,281	2,582,772	3,131,313	2,863,707	3,006,360	2,978,610	2,775,022
Town attorney	465,714	494,245	535,633	545,434	476,792	476,844	489,362	471,179	676,293	726,639
Parks and recreation	3,615,552	3,851,099	3,985,756	4,055,755	4,136,245	4,288,848	4,449,527	4,675,180	3,934,039	2,665,348
Finance	1,236,659	1,302,849	1,267,040	1,307,771	1,427,806	1,518,192	1,716,122	1,532,617	1,508,139	1,477,878
Community development	2,069,278	2,051,139	1,891,352	1,857,171	1,598,172	1,686,329	1,736,736	1,947,330	2,102,628	1,912,361
Police	8,829,067	9,053,956	9,097,892	9,126,841	9,848,958	9,603,136	10,074,661	10,222,766	10,328,678	9,849,301
Public works	8,534,908	9,172,971	9,453,015	9,512,357	10,014,006	10,735,437	10,239,065	9,767,767	10,432,212	9,225,472
Grants	52,544	38,171	102,305	26,042	46,618	74,628	151,977	69,523	84,490	278,570
Capital outlay	2,313,599	1,699,472	2,242,162	4,805,785	3,296,422	3,040,310	3,109,930	1,755,189	5,220,582	377,676
Non-departmental	-	-	-	-	-	-	-	-	457,223	1,522,495
Debt service:										
Principal	1,458,640	1,505,093	1,540,720	1,681,126	1,102,539	1,090,629	1,256,739	1,344,287	1,388,246	4,273,129
Interest and fiscal charges	695,817	494,954	481,073	573,790	313,792	283,733	283,989	457,264	359,202	396,744
Total expenditures	31,885,152	32,546,607	33,538,448	36,575,992	35,498,671	36,628,350	37,071,017	35,962,671	39,971,094	35,987,726
Excess of revenues over (under) expenditures	728,332	309,632	985,875	(1,272,617)	1,994,040	622,919	775,298	2,303,505	971,722	2,281,090
Other financing sources (uses):										
Transfers in	666,003	584,487	1,048,074	1,043,888	1,474,921	1,535,807	1,335,013	827,525	234,281	1,816,456
Transfers out	(883,586)	(760,379)	(3,158,060)	(1,430,526)	(1,649,825)	(1,691,400)	(1,480,000)	(1,046,350)	(246,583)	(141,416)
Issuance of debt	97,500	-	-	-	-	-	969,000	3,686,266	-	-
Proceeds of refunding bonds	4,999,000	-	-	4,032,000	-	-	-	-	-	5,087,915
Payment to refunded bond escrow agent	(4,986,906)	-	-	(3,822,703)	-	-	-	-	-	(1,604,801)
Insurance recoveries	-	-	-	-	-	-	-	222,501	49,867	94,932
Proceeds from sale of property	27,375	29,876	1,951,169	-	14,927	-	-	65,954	19,727	84,502
Total other financing sources (uses), net	(80,614)	(146,016)	(158,817)	(177,341)	(159,977)	(155,593)	824,013	3,755,896	57,292	5,337,588
Net changes in fund balances	\$ 647,718	\$ 163,616	\$ 827,058	\$ (1,449,958)	\$ 1,834,063	\$ 467,326	\$ 1,599,311	\$ 6,059,401	\$ 1,029,014	\$ 7,618,678

TOWN OF HERNDON, VIRGINIA

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

Table 4
Page 2

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Debt service as a percentage of noncapital expenditures:										
Total debt service	\$ 2,154,457	\$ 2,000,047	\$ 2,021,793	\$ 2,254,916	\$ 1,416,331	\$ 1,374,362	\$ 1,540,728	\$ 1,801,551	\$ 1,747,448	\$ 4,669,873
Total expenditures	\$ 31,885,152	\$ 32,546,607	\$ 33,538,448	\$ 36,575,992	\$ 35,498,671	\$ 36,628,350	\$ 37,071,017	\$ 35,962,671	\$ 39,971,094	\$ 35,987,726
Less: capital outlay	(1,325,046)	(1,784,169)	(2,464,081)	(4,496,172)	(3,549,414)	(3,370,996)	(3,752,903)	(1,678,206)	(5,293,568)	(1,322,688)
Noncapital expenditures	\$ 30,560,106	\$ 30,762,438	\$ 31,074,367	\$ 32,079,820	\$ 31,949,257	\$ 33,257,354	\$ 33,318,114	\$ 34,284,465	\$ 34,677,526	\$ 34,665,038
Debt service as a percentage of noncapital expenditures	7.05%	6.50%	6.51%	7.03%	4.43%	4.13%	4.62%	5.25%	5.04%	13.47%

Source:

Town of Herndon Finance Department - Exhibit A-5

Exhibit A-6 for capital outlay

TOWN OF HERNDON, VIRGINIA

Table 5

**TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)**

Fiscal Year June 30,	General Property Including Interest and Penalty	Business License	Transient Occupancy	Local Sales	Meals	Cigarette	Motor Vehicle	Consumer Utility and Consumption	Other (1)	Total
2012	\$ 9,469,904	\$ 3,928,098	\$ 2,235,969	\$ 1,601,032	\$ 1,991,460	\$ 364,975	\$ 386,712	\$ 882,544	\$ 630,290	\$ 21,490,984
2013	10,166,799	4,481,963	2,088,149	1,668,325	2,008,529	333,869	373,415	888,993	599,107	22,609,149
2014	10,500,239	4,750,718	2,091,900	1,703,517	2,046,307	337,783	371,325	895,793	653,367	23,350,949
2015	10,970,320	4,860,528	2,187,198	1,848,993	2,121,519	323,517	365,163	891,319	720,407	24,288,964
2016	11,029,513	4,868,291	2,169,852	1,871,189	2,173,102	330,796	358,906	872,267	728,402	24,402,318
2017	11,214,419	5,569,516	2,199,410	1,798,728	2,215,677	288,484	431,639	876,765	797,078	25,391,716
2018	11,367,364	5,732,161	2,286,397	1,818,023	2,266,761	271,983	459,417	886,500	742,209	25,830,815
2019	11,691,186	4,930,755	2,345,943	1,871,909	2,308,551	254,081	461,004	888,455	689,643	25,441,527
2020	12,241,266	5,767,393	1,573,340	1,897,945	2,845,607	209,757	455,175	874,759	588,083	26,453,325
2021	12,822,398	6,680,365	888,999	2,033,030	2,805,350	178,772	432,593	867,110	675,943	27,384,560
Change 2012-2021	35.40%	70.07%	-60.24%	26.98%	40.87%	-51.02%	11.86%	-1.75%	7.24%	27.42%

Source: Town of Herndon Finance Department and Exhibit B-4.

Notes:

(1) Includes right of way use fees, bank stock taxes and cable TV franchise fees.

TOWN OF HERNDON, VIRGINIA

Table 6

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Year	Residential Property	Non-Residential Property	Public Service Corporation	Exempt (Nontaxable)	Total Assessed Value (1)	Total Taxable Assessed Value	Percent Growth	Total Direct Tax Rate	Actual Taxable Value	Value as a Percentage of Assessed Value
2012	\$ 1,708,242,740	\$ 1,747,193,177	\$ 119,532,778	\$ 204,073,885	\$ 3,779,042,580	\$ 3,574,968,695	4.66%	\$ 0.2650	\$ 3,574,968,695	100.00%
2013	1,801,509,810	1,925,923,584	116,081,340	205,388,122	4,048,902,856	3,843,514,734	7.51%	0.2650	3,843,514,734	100.00%
2014	1,980,265,471	1,883,749,270	81,935,902	208,716,740	4,154,667,383	3,945,950,643	2.67%	0.2650	3,945,950,643	100.00%
2015	2,173,438,731	1,859,709,194	112,355,453	214,819,800	4,360,323,178	4,145,503,378	5.06%	0.2650	4,145,503,378	100.00%
2016	2,256,968,560	1,823,038,660	114,688,984	220,801,220	4,415,497,424	4,194,696,204	1.19%	0.2650	4,194,696,204	100.00%
2017	2,348,465,120	1,848,104,770	124,886,642	239,891,960	4,561,348,492	4,321,456,532	3.02%	0.2650	4,321,456,532	100.00%
2018	2,430,186,400	1,890,348,960	119,777,904	241,876,120	4,682,189,384	4,440,313,264	2.75%	0.2650	4,440,313,264	100.00%
2019	2,546,334,900	1,971,459,740	122,069,304	252,749,430	4,892,613,374	4,639,863,944	4.49%	0.2650	4,639,863,944	100.00%
2020	2,631,535,050	2,098,506,390	123,942,449	260,867,840	5,114,851,729	4,853,983,889	4.61%	0.2650	4,853,983,889	100.00%
2021	2,742,953,080	2,051,179,410	117,428,156	255,179,930	5,166,740,576	4,911,560,646	1.19%	0.2650	4,911,560,646	100.00%

Sources:

Town of Herndon Finance Department

County of Fairfax Department of Tax Administration (Real Estate Division)

PSC Values from the State Corporation Commission, Certified every September

Notes:

(1) Rates are per \$100 of assessed value.

TOWN OF HERNDON, VIRGINIA

Table 7

**DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Tax Rates - Town		Tax Rates - County		Tax Rates - Combined	
	Real Property	Personal Property	Real Property	Personal Property	Real Property	Personal Property
2012	\$ 0.2650	-	\$ 1.0750	\$ 4.5700	\$ 1.3400	\$ 4.5700
2013	0.2650	-	1.0850	4.5700	1.3500	4.5700
2014	0.2650	-	1.0900	4.5700	1.3550	4.5700
2015	0.2650	-	1.0900	4.5700	1.3550	4.5700
2016	0.2650	-	1.1300	4.5700	1.3950	4.5700
2017	0.2650	-	1.1300	4.5700	1.3950	4.5700
2018	0.2650	-	1.1500	4.5700	1.4150	4.5700
2019	0.2650	-	1.1500	4.5700	1.4150	4.5700
2020	0.2650	-	1.1500	4.5700	1.4150	4.5700
2021	0.2650	-	1.1400	4.5700	1.4050	4.5700

Source:
Town of Herndon Finance Department

Notes:
(1) These rates are per \$100 of assessed value for real estate and personal property.

TOWN OF HERNDON, VIRGINIA

Table 8

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Taxpayer	2021				2012			
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	
USGBF 499 Grove Street LLC	\$ 81,371,950	1	1.66	%	-	-	-	%
Westerly at Worldgate Owner LLC	68,834,720	2	1.40		\$ 58,080,930	4	1.62	
USGBF 399 Grove Street LLC	66,378,680	3	1.35		-	-	-	
Townes Apartments LLC	65,941,830	4	1.34		-	-	-	
MIVPO LLC	59,966,880	5	1.22		45,013,530	9	1.26	
Worldgate Center Owner LLC	51,236,320	6	1.04		64,230,160	3	1.80	
38 WP2D1 Owner LLC	50,460,560	7	1.03		-	-	-	
OAP/VER Herndon VA LLC	44,267,010	8	0.90		-	-	-	
Monument III Owner LLC	42,795,260	9	0.87		-	-	-	
460 Herndon Parkway LLC	42,615,730	10	0.87		-	-	-	
BP New Dominion Technology	-	-	-		82,460,930	1	2.31	
New Dominion	-	-	-		72,669,990	2	2.03	
Realty Associates	-	-	-		55,471,290	5	1.55	
AC/MRP Monument III Associates LLC	-	-	-		55,202,360	6	1.54	
EQR - Herndon LLC	-	-	-		48,255,230	7	1.35	
Washington Real Estate Investment Trust	-	-	-		45,167,480	8	1.26	
CLF Herndon LLC	-	-	-		36,612,230	10	1.02	
Total	<u><u>\$ 573,868,940</u></u>		<u><u>11.68</u></u>	%	<u><u>\$ 563,164,130</u></u>		<u><u>15.75</u></u>	%

Sources:

Town of Herndon Finance Department

County of Fairfax Department of Tax Administration (Real Estate Division)

TOWN OF HERNDON, VIRGINIA

Table 9

**REAL PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)**

Assessment Tax Year	Taxes Levied for the Tax Year (1)	Collected Within the Tax Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2011	\$ 8,709,325	\$ 8,657,610	99.41%	\$ 51,540	\$ 8,709,150	100.00%
2012	9,160,086	9,104,251	99.39%	55,444	9,159,695	100.00%
2013	9,880,992	9,845,894	99.64%	34,681	9,880,575	100.00%
2014	10,299,028	10,272,232	99.74%	26,796	10,299,028	100.00%
2015	10,705,433	10,674,237	99.71%	30,969	10,705,206	100.00%
2016	10,805,027	10,767,440	99.65%	36,566	10,804,006	99.99%
2017	11,019,662	10,999,443	99.82%	20,501	11,019,944	100.00%
2018	11,449,420	11,434,920	99.87%	10,124	11,445,043	99.96%
2019	11,965,659	11,794,199	98.57%	163,445	11,957,644	99.93%
2020	12,534,612	12,388,867	98.84%	124,641	12,513,508	99.83%

Source:
Town of Herndon Finance Department.

Note:
(1) Abatements and supplements which relate to prior years are recorded as revenue collections (or refunds) in year of receipt. Records do not exist which separate current fiscal year levy collections from prior tax year abatements and supplements.

TOWN OF HERNDON, VIRGINIA

Table 10

**RATIOS OF OUTSTANDING DEBT BY TYPE AND GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Per Capita Personal Income	Debt Per Capita	General Bonded Debt Outstanding	Percentage of Actual Taxable Value of Property	General Bonded Debt Outstanding
	General Obligation Bonds	Capital Leases and Notes	Revenue Bonds	Other Obligations				General Obligation Bonds		Debt Per Capita
2012	\$ 15,388,576	\$ 1,730,000	\$ 3,166,900	\$ -	\$ 20,285,476	1.19	861	\$ 15,388,576	43%	653
2013	14,009,445	1,590,513	2,961,603	-	18,561,561	1.13	787	14,009,445	36%	594
2014	12,594,199	1,451,514	2,747,420	-	16,793,133	0.98	712	12,594,199	32%	534
2015	12,464,958	87,397	2,609,488	-	15,161,843	0.85	642	12,464,958	30%	528
2016	11,353,283	83,158	2,355,385	-	13,791,826	0.76	583	11,353,283	27%	480
2017	10,253,274	78,794	2,036,746	-	12,368,814	0.66	521	10,253,274	24%	432
2018	10,031,639	-	1,771,516	-	11,803,155	0.63	496	10,031,639	23%	421
2019	12,354,914	-	9,352,703	3,681,872	25,389,489	1.35	1,060	12,354,914	27%	516
2020	10,947,964	-	8,817,990	3,419,303	23,185,257	1.17	964	10,947,964	23%	455
2021	11,106,523	-	7,660,344	3,178,615	21,945,482	1.06	912	11,106,523	23%	462

Source:
Town of Herndon Finance Department

- Notes:
- (1) Details regarding the town's outstanding debt may be found in the notes to the basic financial statements.
 - (2) Population and personal income data can be found in table 14.
 - (3) See table 6 for taxable value of property.
 - (4) The Downtown Parking Fund debts were reclassified from business-type to governmental activities 2021.

TOWN OF HERNDON, VIRGINIA

Table 11

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2021
(Unaudited)**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt (2)
Fairfax County, Virginia	\$ 2,573,716,885	1.7786%	\$ 45,776,482
Town Direct Debt (3)			<u>11,106,523</u>
Total direct and overlapping debt			<u><u>\$ 56,883,005</u></u>

Sources:

County of Fairfax Finance Department and Town of Herndon Finance Department.

Notes:

(1) The estimated percentage of overlapping debt applicable is determined using taxable assessed property values.
The Town of Herndon is located within the geographic boundaries of the County of Fairfax.

(2) Amounts for bonds are reported net of premiums and/or discounts.

(3) The town's direct debt is also presented in Table 10.

TOWN OF HERNDON, VIRGINIA

Table 12

**LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Debt limit	\$ 345,568,950	\$ 372,773,329	\$ 386,401,474	\$ 403,314,793	\$ 408,000,722	\$ 419,656,989	\$ 432,053,536	\$ 451,779,464	\$ 473,004,144	\$ 479,413,249
Total debt applicable to limit	17,118,576	15,599,958	14,045,713	12,466,973	11,436,441	10,332,068	10,031,639	12,354,914	11,106,523	11,106,523
Available legal debt margin	<u>\$ 328,450,374</u>	<u>\$ 357,173,371</u>	<u>\$ 372,355,761</u>	<u>\$ 390,847,820</u>	<u>\$ 396,564,281</u>	<u>\$ 409,324,921</u>	<u>\$ 422,021,897</u>	<u>\$ 439,424,550</u>	<u>\$ 461,897,621</u>	<u>\$ 468,306,726</u>
Total debt applicable to the limit as a percentage of debt limit	4.95%	4.18%	3.64%	3.09%	2.80%	2.46%	2.32%	2.73%	2.35%	2.32%

Legal Debt Margin Calculation for Fiscal Year 2021:

Assessed value of real estate	<u>\$ 4,794,132,490</u>
Debt limit (10% of assessed value) (1)	479,413,249
Total Debt applicable to limit:	<u>11,106,523</u>
Available legal debt margin	<u><u>\$ 468,306,726</u></u>

Summary of Outstanding Debt:

2012 refunding bonds	1,796,000
2018B general obligation bonds	4,485,000
2020A Refunding bonds (2010 GO & 2014 refund)	4,012,098
2020B Refunding bonds (2010 refund & 2018B GO)	675,557
Deferred bond premiums	137,868
Total debt applicable to limit	<u><u>\$ 11,106,523</u></u>

Source:
Town of Herndon Finance Department

Notes:
(1) Under the Constitution of Virginia, the town may not issue bonds in excess of 10% of assessed valuation. Self-supporting debt is not included in this calculation, therefore, debt from the business-type activities is excluded.

TOWN OF HERNDON, VIRGINIA

Table 13

**PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)**

Water and Sewer Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2020	\$ 7,389,157	\$ 5,966,717	\$ 1,422,440	\$ 284,450	\$ 246,885	531,335	2.68
2021	6,726,135	5,615,114	1,111,021	262,569	246,887	509,456	2.18

Golf Course Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2012	\$ 1,496,295	\$ 1,252,292	\$ 244,003	\$ 83,044	\$ 46,623	\$ 129,667	1.88
2013	1,467,555	1,331,920	135,635	85,670	44,298	129,968	1.04
2014	1,462,861	1,298,157	164,704	89,146	42,294	131,440	1.25
2015	1,366,093	1,295,926	70,167	93,085	39,014	132,099	0.53
2016	1,502,549	1,238,349	264,200	96,562	34,538	131,100	2.02
2017	1,510,009	1,298,643	211,366	100,501	30,848	131,349	1.61
2018	1,442,234	1,313,374	128,860	103,977	26,802	130,779	0.99
2019	1,472,969	1,244,250	228,719	108,767	22,602	131,369	1.74
2020	1,247,685	1,269,174	(21,489)	111,993	22,783	134,776	(0.16)
2021	2,279,480	1,487,992	791,488	37,707	20,206	57,913	13.67

Chestnut Grove Cemetery Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2012	\$ 686,149	\$ 475,324	\$ 210,825	\$ 103,316	\$ 89,108	\$ 192,424	1.10
2013	744,741	524,940	219,801	108,724	85,348	194,072	1.13
2014	851,041	514,028	337,013	114,133	81,210	195,343	1.73
2015	814,677	540,926	273,751	116,406	56,725	173,131	1.58
2016	839,852	539,973	299,879	146,638	42,140	188,778	1.59
2017	899,125	552,130	346,995	207,234	36,166	243,400	1.43
2018	1,026,042	515,428	510,614	154,079	29,106	183,185	2.79
2019	982,863	552,786	430,077	157,946	24,947	182,893	2.35
2020	879,318	531,954	347,364	161,511	23,014	184,525	1.88
2021	1,211,864	574,258	637,606	39,033	25,164	64,197	9.93

Downtown Parking Fund							
Fiscal Year June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
2020	\$ 36,486	\$ 24,383	\$ 12,103	\$ 5,000	\$ 38,975	43,975	0.28
2021	19,088	64,468	(45,380)	5,000	38,876	43,876	(1.03)

Source:

Town of Herndon Finance Department - Exhibits A-9 and A-10

Notes:

- (1) Gross revenues includes all revenues of the fund except gains on sale of capital assets and capital grant revenue.
- (2) Operating expenses do not include depreciation and amortization, interest expense and losses on sale of capital assets.
- (3) See Note 8 in the Notes to the Financial Statements for detailed information regarding the bonds issued by these funds.

TOWN OF HERNDON, VIRGINIA

Table 14

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN CALENDAR YEARS (Unaudited)

Calendar Year	Population (1)	Per Capita Personal Income (2)	Personal Income (000) (1) * (2)	Public School Enrollment (3)	Unemployment Rates (%) (4)
2012	23,556	\$ 72,200	\$ 1,700,743	177,918	4.2
2013	23,572	69,637	1,641,483	181,259	4.3
2014	23,592	73,000	1,722,216	183,895	4.2
2015	23,612	75,756	1,788,751	185,914	4.0
2016	23,666	76,213	1,803,657	185,979	3.3
2017	23,734	78,376	1,860,176	187,484	3.2
2018	23,809	78,376	1,866,054	188,403	2.7
2019	23,949	78,376	1,877,027	187,474	2.3
2020	24,042	82,441	1,982,047	188,355	7.8
2021	24,057	86,141	2,072,294	179,748	4.1

Sources:

(1) Town of Herndon, Community Development Annual Population Estimate memo November 2021

(2) www.bea.gov Tools>Interactive Data> Regional Data>GDP & Personal Income>
Personal Income and Employment (CAINC1)>Fairfax County - updated November 17, 2020

3)

(3) Actual enrollment is obtained from FCPS Approved Budget Book at www.fcps.edu

(4) Virginia Employment Commission, www.virginiaworks.com Employment>Local Area
Unemployment Statistics (LAUS) - Fairfax County June (Unadjusted) - October 29, 2021

TOWN OF HERNDON, VIRGINIA

Table 15

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
(Unaudited)**

Employer	2021			2012	
	Number of Employees (1)	Rank	Percentage of Total Town Employment (2)	Number of Employees (3)	Rank
Fannie Mae	1,250-1499	1	7.60%	-	-
Booz Allen Hamilton, Inc.	1,000-1,249	2	5.97%	750-999	1
Amazon Web Services	750-999	4	5.00%	-	-
Northwest Federal Union	250-499	3	2.21%	250-499	4
Peraton	250-499	5	1.90%	-	-
Serco	250-499	6	1.90%	-	-
Boeing Corporation	250-499	7	1.75%	250-499	6
Karsun Solutions	250-499	8	1.47%	-	-
Town of Herndon	100-249	9	1.31%	-	-
Physician Transport Service	100-249	10	0.95%	-	-
Score Association	-	-	-	750-999	2
Excelis Inc	-	-	-	250-499	3
Airline Pilots Association	-	-	-	100-249	8
REI Systems	-	-	-	250-499	5
Worldgate Sport & Health Club	-	-	-	250-499	7
Medical Transportation Services	-	-	-	100-249	9
Parsons Brinckerhoff, Inc.	-	-	-	100-249	10
Total			30.06%		

Sources:

- (1) Town of Herndon Communications & Economic Development and Finance Departments
- (2) Fairfax County Economic Development Authority provides total town employment
- (3) Town of Herndon 2012 Annual Comprehensive Financial Report

Note:

- (1) Percentage of total town employment for fiscal year 2012 is not available.

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TOWN OF HERNDON, VIRGINIA

Table 16

FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Legislative	4.0	4.0	4.0	3.5	3.0	3.9	3.1	2.9	3.4	3.6
Administration:										
Communications & economic development	1.5	1.6	2.4	2.7	2.8	2.8	2.9	3.0	2.7	2.8
Town manager	2.0	2.0	2.0	2.1	2.8	3.0	3.0	2.9	1.4	2.0
Human resources	3.4	3.4	3.1	3.5	3.6	3.7	3.8	3.7	3.8	3.8
Information services	6.0	6.0	6.1	5.9	6.1	5.5	5.9	6.3	6.2	5.2
Town attorney	2.8	2.8	2.6	2.6	2.5	2.7	2.7	2.8	4.1	4.6
Parks and recreation:										
Administration	4.6	4.9	4.0	5.1	5.7	5.8	5.8	5.8	5.6	5.6
Recreation programs	15.3	15.1	15.1	14.8	16.3	15.9	16.4	15.6	13.3	4.6
Community center operations	16.6	16.9	16.7	16.6	16.0	16.4	15.7	17.3	15.3	8.1
Aquatics programs and operations	13.7	13.3	13.1	13.8	12.1	13.4	13.9	14.0	11.1	4.8
Park operation and development	1.3	1.6	1.6	1.1	0.8	1.5	2.2	2.6	2.1	1.3
Finance:										
Administration	2.0	2.0	2.0	1.0	1.0	1.1	2.0	1.9	2.5	2.3
Accounting	5.0	4.9	4.7	5.8	5.8	6.3	6.2	5.7	5.0	4.4
Revenue	2.8	2.8	2.8	2.8	2.7	2.8	2.4	2.8	3.2	4.2
Procurement	1.0	1.0	1.0	0.6	1.0	0.8	1.0	1.0	1.0	1.0
Community development	21.5	19.2	18.7	18.2	14.8	15.5	14.5	16.3	16.8	15.6
Police:										
Field operations	49.9	48.9	48.4	46.6	45.1	47.1	42.2	42.3	42.9	38.6
Support services	29.8	31.9	33.4	35.4	34.8	35.0	35.3	34.4	32.3	34.4
Public works:										
Administration	6.9	7.0	7.0	7.0	6.9	6.5	6.5	6.3	5.9	6.0
Engineering	5.0	4.9	4.4	4.7	3.9	4.9	4.8	5.3	5.1	6.0
Program management	3.0	2.9	2.8	2.0	1.5	1.3	1.8	1.8	2.0	2.0
Building inspections	4.9	4.8	4.9	4.4	4.6	4.9	4.6	4.3	4.9	4.3
Building maintenance	8.4	8.5	8.0	7.2	7.2	7.0	7.0	6.8	6.0	4.4
Grounds maintenance	9.0	11.0	11.0	11.6	12.3	12.6	11.7	11.7	11.6	11.9
Street maintenance	8.7	9.8	11.0	9.8	10.3	10.2	9.7	8.7	8.9	9.3
Refuse/recycling	16.6	17.0	16.8	16.6	16.9	15.2	13.9	14.5	14.1	14.9
Vehicle and equipment replacement	9.2	9.4	9.4	10.5	10.5	10.0	8.9	8.9	8.0	7.6
Traffic engineering	3.0	3.1	3.2	3.2	2.6	3.1	3.0	3.0	2.6	3.0
Right-of-way inspections	3.1	3.0	3.1	3.1	3.1	3.0	3.0	3.0	2.8	3.0

TOWN OF HERNDON, VIRGINIA

Table 16
Page 2

FULL-TIME TOWN GOVERNMENT EQUIVALENT EMPLOYEES BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Water and Sewer:										
Customer service	3.9	4.1	4.0	4.3	3.5	4.3	3.1	2.9	2.9	2.4
Sewer service and maintenance	3.3	4.4	5.3	5.2	5.1	4.8	5.2	5.4	6.7	5.5
Water supply and maintenance	8.1	7.7	7.3	8.3	7.7	7.4	6.7	5.2	4.4	4.7
Golf Course:										
Maintenance	7.2	7.2	7.5	7.3	6.8	7.3	6.7	6.5	6.4	7.4
Clubhouse	5.8	5.7	5.8	6.1	5.4	5.5	5.5	5.1	4.5	6.0
Chestnut Grove Cemetery:										
Administration	5.0	4.8	4.8	4.9	4.3	4.7	4.7	5.0	4.4	4.8
Total	294.4	297.9	298.0	298.3	289.6	296.0	285.8	285.8	274.0	249.9

Source:

Town of Herndon, Finance Department Munis report Payroll>Employee History>History Inquiry

TOWN OF HERNDON, VIRGINIA

Table 17

**OPERATING INDICATORS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Police:										
Calls for service (1)	27,700	30,900	28,990	36,230	35,520	21,967	24,253	23,246	23,102	22,332
Human Resources:										
Recruitments requests (1)	89	60	56	65	64	43	67	64	83	115
Building safety:										
Total building permits (2)	247	226	241	230	263	237	298	280	193	217
Total inspections performed (1)	2,928	2,628	2,613	2,844	3,496	3,433	3,340	4,460	3,096	2,217
Public service:										
Refuse collected (tons) (1)	5,860	5,248	5,670	6,250	6,410	6,537	6,309	6,358	6,179	6,801
Recycle collected (residential - tons) (1)	1,518	1,517	1,625	1,673	1,711	1,752	1,803	1,789	1,633	1,622
Parks and Recreation:										
Class and program attendance (1)	16,954	12,000	11,500	11,200	11,600	13,700	12,300	13,700	8,500	1,200
Herndon Festival attendance (1)	69,000	82,000	82,000	83,000	78,500	81,500	40,300	62,000	-	-
Water and sewer:										
New utility accounts (2)	78	15	25	20	35	26	75	3	3	2
Average daily water consumption (mgd) (2)	2.17	2.02	2.00	2.15	2.13	2.24	2.28	2.21	2.19	1.99
Average daily sewage treatment (mgd) (2)	2.47	2.24	2.66	2.46	2.44	2.67	2.88	3.36	3.02	2.95
Golf Course:										
Rounds played (18 and 9 hole) (1)	33,435	31,766	31,421	30,368	33,112	33,029	31,369	31,401	27,301	47,397
Cemetery:										
Interment rights for sites sold (1)	204	180	184	136	132	148	171	148	152	199
Interments performed (1)	138	124	129	139	140	133	161	140	153	175

Sources:

- (1) Town of Herndon Town Manager's Annual Reports
- (2) Town of Herndon Department of Public Works
- (3) Town of Herndon Department of Human Resources
- (4) Town of Herndon Parks & Recreation
- (5) Herndon Centennial Golf Course

TOWN OF HERNDON, VIRGINIA

Table 18

**CAPITAL ASSET STATISTICS BY FUNCTION / PROGRAM
LAST TEN FISCAL YEARS
(Unaudited)**

Function/Program	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Police:										
Stations (1)	1	1	1	1	1	1	1	1	1	1
Vehicles (1)	42	42	45	45	47	47	47	47	50	47
Refuse Collection:										
Collection trucks (2)	9	9	9	9	10	10	10	10	17	16
Other public works:										
Vehicles/equipment maintained (2)	378	379	385	424	429	533	567	552	514	553
Streets:										
Primary (miles) (2)	31.3	31.3	31.3	31.3	31.3	31.3	41.6	41.6	41.6	41.6
Secondary (miles) (2)	98.4	98.4	98.4	98.4	98.4	98.4	88.4	88.4	88.4	88.4
Parks & Recreation:										
Parks - number of acres (3)	97	97	97	97	97	137	137	137	137	137
Swimming pools (3)	1	1	1	1	1	1	1	1	1	1
Parks with playground equipment (3)	7	7	7	7	7	7	7	7	7	7
Community centers (3)	1	1	1	1	1	1	1	1	1	1
Water:										
Water lines (miles) (2)	89.3	89.3	83.4	84.7	84.7	84.7	84.9	85.0	85.0	85.0
Storage capacity (million gallons) (2)	3.3	3.3	3.3	3.3	3.3	2.0	2.0	2.0	2.0	2.0
Wastewater:										
Sanitary sewers (miles) (2)	81.8	81.8	81.8	81.8	81.8	81.8	81.9	81.9	81.9	81.9

Sources:

- (1) Town of Herndon Police Department
- (2) Town of Herndon Department of Public Works
- (3) Town of Herndon Park & Recreation

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COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of Town Council
Town of Herndon, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Herndon (the "town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the town's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of town's internal control. Accordingly, we do not express an opinion on the effectiveness of the town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia

November 19, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Honorable Members of Town Council
Town of Herndon, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Town of Herndon, Virginia's (the "town") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the town's major federal programs for the year ended June 30, 2021. The town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Herndon, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 19, 2021

TOWN OF HERNDON, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2021

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Fire Programs Aid to Localities

State Agency Requirements

Urban Highway Maintenance

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

TOWN OF HERNDON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2021

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The major programs of the town are:

<u>Name of Program</u>	<u>ALN #</u>
COVID-19 – CARES Act Coronavirus Relief Fund	21.019

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The Town of Herndon was **not** determined to be a **low-risk auditee**.

(Continued)

TOWN OF HERNDON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2021

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.

Town of Herndon, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Assistance Listing Number	Cluster Name	Pass-through Entity Identifying Number	Cluster Amounts	Federal Expenditures
U.S. Department of Housing and Urban Development:					
Pass Through Payments:					
Fairfax County, Virginia:					
Community Development Block Grants:					
Entitlement Grants	14.218	CDBG-Entitlement Grants Cluster	N/A	66,894	\$ 66,894
Total U.S. Department of Housing and Urban Development					66,894
U.S. Department of Justice:					
Direct Payments:					
Bulletproof Vest Partnership Program	16.607	N/A	N/A		4,995
Total U.S. Department of Justice					4,995
Department of Transportation:					
Pass Through Payments:					
Virginia Department of Transportation:					
State and Community Highway Safety Program	20.600	Highway Safety Cluster	N/A	10,928	10,928
Alcohol Open Container Requirements	20.607	N/A	N/A		15,339
Total Department of Transportation					26,267
Executive Office of the President:					
Direct Payments:					
High Intensity Drug Trafficking Areas Program	95.001	N/A	N/A		2,010
Total Executive Office of the President					2,010
Department of the Treasury:					
Pass Through Payments:					
Fairfax County, Virginia:					
COVID-19 - CARES Act Coronavirus Relief Fund	21.019	N/A	N/A		2,416,736
Department of Homeland Security					
Direct Awards:					
Disaster Grants - Public Assistance	97.036	N/A	N/A		60,244
Total Expenditures of Federal Awards					\$ 2,577,146

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of the Town of Herndon, Virginia and is presented on the modified accrual basis of accounting, as described in Note 1 to the Town of Herndon, Virginia's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

NOTE 2 - DE MINIMIS INDIRECT COST RATE:

The entity did not elect to use the 10% de minimus indirect cost rate.

NOTE 3 - OUTSTANDING LOAN BALANCES:

At June 30, 2021, the Town had no outstanding loan balances requiring continuing disclosure.